5.2 Analysis of Operating Activities

Net cash provided by operating activities is a key indicator of the extent to which Vivendi's operations generate sufficient cash in order to repay its borrowings, maintain its operating capacity, pay dividends and undertake new investments without relying on external financing. Cash flows provided by operating activities are primarily generated by Vivendi's principal revenue-producing activities and involve cash received from the sale of goods and services, cash paid to suppliers of goods and services, cash paid to employees or on their behalf and cash paid and received in respect of income taxes.

In addition, for information and planning purposes and because it is often used by the financial analysts and investors community, Vivendi considers **cash flow from operations (CFFO)**, a non-GAAP measure, to be a relevant indicator of cash generated by its businesses and, more generally, of the operating performance of the Group. Cash flow from operations (CFFO) is equal to net cash provided by operating activities, as presented in the Consolidated Statement of Cash Flows, before tax and adjusted for cash used for net capital expenditures (Capex, net) and cash received as dividends from equity affiliates and unconsolidated companies.

Cash flow from operations after interest and income tax paid (CFAIT) is equal to cash flow from operations (CFFO) after adjustment for interest paid, cash used for other financial activities (i.e. premiums paid on early redemption of borrowings or cash flows relating to foreign exchange transactions related to financing activities) and income taxes paid.

In 2006, cash flow from operations, after capital expenditure, interest and income tax paid (CFAIT) amounted to €2,912 million compared to €2,062 million in 2005, representing a 41% increase (€850 million). It is broken down as follows:

- **Cash flow from operations (CFFO) generated by the businesses** totaled €4,466 million (compared to €4,157 million during the same period in 2005), representing a 7% increase (+€309 million) and includes:
    - Cash flows from operations before capital expenditures (CFFO, before capex, net) amounting to €6,111 million (compared to €5,448 million in 2005), representing an increase of €663 million (+12%), which is consistent with the increase in EBITDA and the favorable change in working capital. This result was achieved despite the payment made for the transfer of certain US pension plans to third parties (-€152 million), the increase in content investments (-€96 million) and the dividend received from NBCU (-€84 million). In addition, in 2005, it was affected by the payment of the -€220 million fine imposed to SFR by the French competition authorities.
    - Capital expenditures (property, plant and equipment as well as intangible assets, net of disposals) amounted to €1,645 million (compared to €1,291 million in 2005), representing a 27% increase (€354 million), mainly due to investments in network equipment by SFR and Maroc Telecom and set-top boxes by the Canal+ Group.
- **Cash flow used for interest and other financial activities** totaled -€173 million compared to -€709 million in 2005, representing an improvement of €536 million. It includes interest paid of -€203 million with respect to borrowings, net of interest received on cash and cash equivalents, representing a 7% improvement, as well as other financial activities that generated cash inflows of €30 million mainly resulting from a foreign currency exchange gain (€59 million). In 2005, it included interest paid of -€218 million, premiums paid with respect to early redemption of some borrowings (bonds exchangeable into Vinci shares for -€108 million and the remaining High Yield Notes for -€41 million) as well as the early unwinding of interest rate swaps without counterparts for -€131 million and a foreign currency exchange loss of -€217 million resulting from the change in value of the US dollar.
- **Cash expenses related to income taxes paid** amounted to -€1,381 million (compared to -€1,386 million during the same period in 2005). It includes income taxes paid on the settlement of the litigation on the DuPont shares (€521 million), partially offset by the repayment of €505 million received from the French Treasury, under the Consolidated Global Profit Tax System, in 2006 with respect of fiscal year 2005. In 2005 it included the catch-up adjustment on the tax paid by SFR with respect to fiscal year 2005 (-€1,414 million paid of which -€628 million related to fiscal year 2004, compared to -€68 million paid in 2004), resulting from the streamlining of the SFR Cegetel Group legal structure at the end of 2003, partially offset by the repayment of €465 million received from the French Treasury, under the Consolidated Global Profit Tax System, in 2005 in respect of fiscal year 2004.

Monday, 12 March 2007

(In millions of euros)	Year ended December 31, 2006	2005	% Change
Revenues	€ 20,044	€ 19,484	3%
Operating expenses excluding depreciation and amortization	(14,306)	(14,153)	-1%
Sub-total (modified EBITDA)	*5,738*	*5,331*	*8%*
Restructuring charges paid	(48)	(110)	56%
Content investments, net (a)			
Payments to artists and repertoire owners, net at UMG			
Payment to artists and repertoire owners	(620)	(588)	-5%
Recoupment and other movements	601	570	5%
	(19)	(18)	-6%
Film and television rights, net at the Canal+ Group			
Acquisition of film and television rights	(599)	(567)	-6%
Consumption of film and television rights	581	551	5%
	(18)	(16)	-13%
Sport rights, net at the Canal+ Group			
Acquisition of sport rights	(683)	(554)	-23%
Consumption of sport rights	717	570	26%
	34	16	113%
Advances to games' developpers, net at Vivendi Games			
Payment of advances	(63)	(28)	-125%
Recoupment of advances	62	38	63%
	(1)	10	na*
Other	(107)	(7)	na*
	(111)	(15)	na*
Change in provisions included in modified EBITDA	158	(77)	na*
Other cash operating items excluded from modified EBITDA	2	(40)	na*
Other changes in net working capital	67	(33)	na*
Net cash provided by operating activities before income tax paid	***5,806***	***5,056***	***15%***
Income tax (paid) / collected	(1,381)	(1,386)	0%
Net cash provided by operating activities	**€ 4,425**	**€ 3,670**	***21%***
Contribution to the reduction of Financial Net Debt	**€ (4,425)**	**€ (3,670)**	***-21%***

na: not applicable*

(a) For more details, please refer to Note 10 of the notes to the Consolidated Financial Statements for the year ended December 31, 2006.

(In millions of euros)	Year ended December 31, 2006	2005	% Change
Net cash provided by operating activities before income tax paid	5,806	5,056	*15%*
Dividends received from equity affiliates			
NBC Universal	*262*	*346*	*-24%*
Other	*9*	*9*	*0%*
	271	355	*-24%*
Dividends received from unconsolidated companies	34	37	-8%
Cash flow from operations excluding capital expenditures and proceeds from sales of property, plant, equipment and intangible assets (CFFO before capex, net)	***6,111***	***5,448***	***12%***
Capital expenditures, net (Capex, net)			
At SFR	(1,133)	(923)	-23%
At Maroc Telecom	(255)	(238)	-7%
Other	(257)	(130)	-98%
	(1,645)	(1,291)	-27%
Cash flow from operations (CFFO)	**4,466**	**4,157**	**7%**
Financial activities			
Interest paid	(203)	(218)	-7%
Premium paid as part of the early redemption of borrowings and the unwinding of derivative instruments			
Unwinding of interest rate swaps without cash consideration (a)	-	(131)	na*
Early redemption of bonds exchangeable into Vinci shares	-	(108)	na*
Early redemption of the High Yield Notes	-	(41)	na*
Other	(3)	(1)	na*
	(3)	(281)	99%
Cash impact of currency hedging	59	(217)	na*
Other	(26)	7	na*
Other cash items related to financial activities	30	(491)	na*
Financial activities cash payment	***(173)***	***(709)***	***76%***
Income tax (paid) / collected			
Down-payment for the current year at SFR	(816)	(786)	-4%
Ex-post payments for the previous year at SFR	(39)	(628)	94%
Income tax paid at Maroc Telecom	(286)	(279)	-3%
Payment received from the French State Treasury as part of the Consolidated Global Profit Tax System	505	465	9%
Income tax paid with respect to DuPont settlement with IRS (June)	(521)	-	na*
Other	(224)	(158)	-42%
Income tax cash payment	***(1,381)***	***(1,386)***	***0%***
Cash flow from operations after interest and income tax paid (CFAIT)	**2,912**	**2,062**	**41%**

na: not applicable*

(a) Please refer to paragraph 5.4.

5.3 Analysis of Investing Activities

Net cash provided by (used for) investing activities represents the extent to which expenditures have been made by Vivendi and its businesses for resources intended to generate future income and cash flows. It reflects the cash impact of financial investments and capital expenditures, including:

- cash used for financial investments: acquisitions of consolidated companies, investments in equity affiliates, available-for-sale securities and other increases in financial assets (e.g., loans or advances to third parties);
- cash generated by divestitures: sales of consolidated companies, investments in equity affiliates, available-for-sale securities and other decreases in financial assets (e.g., the repayment of loans and advances to third parties);
- cash used for capital expenditures: purchases of intangible assets and property, plant and equipment, net of disposals; and
- cash generated by dividends received from equity affiliates and unconsolidated companies.

In addition, certain investing activities can impact Financial Net Debt without generating an inflow or outflow of cash. This is the case for borrowings and other financial liabilities of companies entering or leaving the scope of consolidation, which respectively increase or decrease the Financial Net Debt of Vivendi without impacting cash. In addition, the impact of commitments to purchase minority interests in consolidated subsidiaries is reflected in Financial Net Debt in advance of the potential acquisition.

In 2006, cash flow used for investing activities amounted to -€3,420 million compared to -€2,225 million in 2005. It includes net cash used for financial investments amounting to -€2,080 million consisting of purchases of investments and increase in financial assets for-€3,881 million partially offset by proceeds from sales of investments and decrease in financial assets for €1,801 million. In addition, net cash used for capital expenditures amounted to -€1,645 million and Vivendi received €305 million of dividends from equity affiliates and unconsolidated companies (please refer to paragraph 5.2). After taking into account the favorable impact of non-cash transactions which amounted to €567 million, investing activities contributed -€2,853 million to the increase in Financial Net Debt.

- Main financial investments in 2006 were, (i) in January, the payment of the advance of €150 million to TF1 and M6 with respect to the combination of Canal+ France and TPS (the advance was repaid on January 4, 2007; please refer to Section 1.1.1), (ii) in February, the acquisition from MEI of its indirect minority interests in UMG and NBCU (-€964 million), (iii) between May and October, the increase by SFR of its stake in Neuf Cegetel (-€626 million) (iv) the payment made in December to Bertelsmann AG for the acquisition of BMG Music Publishing (-€1,639 million) and (v) in December, the acquisition of a 51% stake in Onatel by Maroc Telecom (-€220 million).
- These investments were partially financed by (i) the sale of Veolia Environnement shares (€861 million) in July, (ii) the sale of DuPont shares (€534 million) in June and (iii) the redemption of the bonds issued by Neuf Telecom (€183 million) in March.
- In addition, in December 2006, as a preliminary step towards the combination of Canal+ France and TPS and the contribution by Lagardère of 34% of CanalSat, Vivendi sold 9.82% of the share capital of Canal+ France to Lagardère for a total cash consideration of €469 million. However, in order to guarantee repayment of this sum to Lagardère if the combination of Canal+ France and TPS were not completed on January 4, 2007, a bank guarantee was set up by a financial institution in favor of Lagardère with an associated cash collateral set up by Vivendi for the corresponding amount and duration. The guarantee and the cash collateral were terminated on January 4, 2007. As of December 31, 2006, the cash collateral is recorded as short-term financial assets and reported as a reduction of Financial Net Debt, considering its maturity date (January 4, 2007). (Please refer to Section 1.1.1 for more information with regards to the combination of Canal+ France and TPS and the agreement with Lagardère).

In 2005, cash flow used by investing activities amounted to -€2,225 million. It includes net cash used for financial investments in the amount of -€1,326 million consisting of purchases of investments and increase in financial assets for -€1,481 million partially offset by proceeds from sales of investments and decrease in financial assets for €155 million. In addition, net cash used for capital expenditures amounted to -€1,291 million and Vivendi received €392 million dividends from unconsolidated and equity affiliates. After taking into account the favorable impact of non-cash transactions which amounted to €1,402 million, investing activities contributed -€823 million to the increase in Financial Net Debt.

- Main financial investments were, (i) in January, the acquisition of an additional 16% stake in Maroc Telecom for -€1,112 million (already accounted for at the end of 2004 ; refer to Section 1.3.1), (ii) the unwinding of the IACI stake in VUE (- €203 million), and (iii) in December, the acquisition of an additional 2% in Telco (-€130 million) as well as the acquisition of games' development studios by Vivendi Games (-€52 million).
- These investments were partially financed by (i) the divestiture of NC Numéricâble / Ypso (€133 million) and, (ii) the partial reimbursement of the bonds issued by Neuf Telecom (€200 million).
- In addition, after the reimbursement by Cegetel of the shareholders' loan granted by SFR, all of the cash flows generated during the completion of the combination of Cegetel and Neuf Telecom had a negative impact of €329 million on SFR's cash position (including the deconsolidation of Cegetel's cash position in the amount of -€30 million). Given the recognition of the put option granted by SFR to SNCF as of December 31, 2004 in accordance with IAS 32 (the present value of such commitment being €304 million as of that date), this transaction had a favorable impact of €97 million on the Financial Net Debt (including the deconsolidation of borrowings and other financial liabilities of Cegetel for €122 million).

Monday, 12 March 2007

(In millions of euros)	refer to section	Year ended December 31, 2006 Impact on cash and cash equivalents	Impact on borrowings and other (a)	Impact on Financial Net Debt
Financial investments				
Purchases of consolidated companies, after acquired cash				
Purchase of the 7.7% stake held by MEI in USHI (February)	1.1.2	964	-	964
Other (b)		58	(14)	44
		1,022	(14)	1,008
Purchases of investments in equity affiliates				
Acquisition by SFR of an additional stake from 28.2% to 40.5% in Neuf Cegetel	1.1.3	626	-	626
Subscription to NBCU's increase in capital to fund iVillage acquisition	1.1.9	98	-	98
Other (b)		-	-	-
		724	-	724
Increase in financial assets				
Advance paid related to the TPS/Canal+ draft combination agreement (January)	1.1.1	150	-	150
Amp'd share capital increases	1.1.10	27	-	27
Acquisition of BMG Music Publishing (December)	1.1.6	1,639	-	1,639
Acquisition of 51% in Onatel (December)	1.1.9	220	-	220
Other (b)		99	-	99
		2,135	-	2,135
Total financial investments		***3,881***	***(14)***	***3,867***
Financial divestments				
Proceeds from sales of consolidated companies, after divested cash				
Early withdrawal of rental guarantees related to "Quartier 207" (June)	1.1.11	52	-	52
Divestiture of Colisée (July)	1.1.11	(39)	(63)	(102)
Divestiture of 9.82% of Canal+ France to Lagardère	1.1.1	-	(469)	(469)
Other (b)		(20)	(21)	(41)
		(7)	(553)	(560)
Sales of investments in equity affiliates	1.1.9			
Remaining 20% stake in Ypso (January)		(36)	-	(36)
Other (b)		(6)	-	(6)
		(42)	-	(42)
Decrease in financial assets				
Merger Cegetel - Neuf Telecom: reimbursement of all bonds issued by Neuf Telecom (including €3 million interest, March)	1.1.3	(183)	-	(183)
Sogecable shares brought to Prisa as part of partial take-over bid (March), net of acquisitions on the market		(10)	-	(10)
Divestiture of DuPont shares on the market (June)	1.1.4	(534)	-	(534)
Divestiture of Veolia Environnement shares on the market (July)	1.1.10	(861)	-	(861)
LBI fund liquidation	1.1.5	(91)	-	(91)
EMI shares		(95)	-	(95)
Other (b)		22	-	22
		(1,752)	-	(1,752)
Total financial divestments		***(1,801)***	***(553)***	***(2,354)***
Financial investment activities		**2,080**	**(567)**	**1,513**
Dividends received from equity affiliates		*(271)*	-	*(271)*
Dividends received from unconsolidated companies		*(34)*	-	*(34)*
Investing activities excluding capital expenditures and proceeds from sales of property, plant, equipment and intangible assets		**€ 1,775**	**€ (567)**	**€ 1,208**
Capital expenditures		1,690	-	1,690
Proceeds from sales of property, plant, equipment and intangible assets		(45)	-	(45)
Investing activities in 2006		**€ 3,420**	**€ (567)**	**€ 2,853**

(a) "Other" comprises commitments to purchase minority interests, derivative financial instruments and cash deposits backing borrowings.

(b) Includes acquisition and divestiture fees.

(In millions of euros)	Refer to section	Year ended December 31, 2005 Impact on cash and cash equivalents	Impact on borrowings and other (a)	Impact on Financial Net Debt
Financial investments				
Purchases of consolidated companies, after acquired cash				
Acquisition of an additional 16 % stake in Maroc Telecom by Vivendi (January)	1.3.1	€ 1,112	€ (1,100)	€ 12
Unwinding of cross-shareholdings in MultiThématiques : purchase by Canal+ of the shares held by Lagardère (February)	1.3.4	20	-	20
Vivendi Games - acquisition of development studios : Radical, Swingin' Ape, Swordfish and High Moon Studios		52	-	52
Acquisition of a 2% stake in Telco / 1% stake in Carcom (December)		80	50	130
Other (b)		47	(1)	46
		1,311	(1,051)	260
Increase in financial assets		17	-	17
Increase in Amp'd's stake (19.9%)		153	-	153
Other (b)		170	-	170
Total financial investments		***1,481***	***(1,051)***	***430***
Financial divestments				
Proceeds from sales of consolidated companies, after divested cash				
Merger Cegetel - Neuf Telecom (August)	1.3.2	329	(426)	(97)
NC Numéricâble / Ypso (March / December)	1.3.4	(133)	-	(133)
Unwinding of IACI stake in VUE by Vivendi (June)	1.3.5	203	-	203
Other (b)		(38)	(18)	(56)
		361	(444)	(83)
Sales of investments in equity affiliates				
Sale of the stake in UGC	1.3.4	(54)	-	(54)
Other (b)		(18)	-	(18)
		(72)	-	(72)
Decrease in financial assets				
Reimbursement of bonds issued by Neuf Telecom	1.3.2	(200)	-	(200)
Termination on Veolia Environnement collar option (October)	1.3.5	(140)	93	(47)
Other (b)		(104)	-	(104)
		(444)	93	(351)
Total financial divestments		***(155)***	***(351)***	***(506)***
Financial investing activities		**1,326**	**(1,402)**	**(76)**
Dividends received from equity affiliates		(355)	-	(355)
Dividends received from unconsolidated companies		(37)	-	(37)
Investing activities in 2005 excluding capital expenditures and proceeds from sales of property, plant, equipment and intangible assets		**934**	**(1,402)**	**(468)**
Capital expenditures		1,380	-	1,380
Proceeds from sales of property, plant, equipment and intangible assets		(89)	-	(89)
Investing activities in 2005		**2,225**	**(1,402)**	**823**

(a) "Other" comprises commitments to purchase minority interests, derivative financial instruments and cash deposits backing borrowings.

(b) Includes acquisition and divestiture fees.

5.4 Analysis of Financing Activities

Net cash provided by (used for) financing activities reflects the impact on cash of transactions with shareholders and the setting-up/reimbursement of financing arrangements.

- The cash impact of transactions with shareholders includes cash proceeds from issuing shares or other equity instruments, in particular, share capital subscriptions by employees under the Group Savings Plan or on the exercise of stock options for shares and cash outflows resulting from the payment of dividends to Vivendi shareholders and minority shareholders in subsidiaries.

- The cash impact of refinancing transactions includes the cash received as a result of the issuance of borrowings and cash used for their repayment, as well as cash used for the payment of interest and other financial activities (e.g., premiums paid on the early repayment of borrowings or cash flows relating to foreign exchange transactions related to financings).

The impact of financing operations on Financial Net Debt is different from the cash impact. In addition, certain operations that do not have an impact on cash are included in the determination of Financial Net Debt.

- The issuance of borrowings has no impact on Financial Net Debt as cash proceeds are fully offset by a new borrowing payable. However, when a borrowing is issued or repaid through a non-cash transaction, it impacts Financial Net Debt. For example, the redemption of a bond exchangeable for shares paid for by the delivery of shares generates a reduction in Financial Net Debt without a corresponding impact on cash.
- In addition, in accordance with IAS 32 and IAS 39, derivative financial instruments are recognized in the consolidated statement of financial position at fair value. When this value is negative, they are recorded as financial liabilities, classified as "borrowings and other financial liabilities". Consequently, when a derivative financial instrument is unwound at its market value, as recorded in the consolidated statement of financial position, the premium paid is deducted from cash but has no impact on Financial Net Debt as the corresponding liability has already been recorded in the consolidated statement of financial position.

In 2006, cash flow from financing activities amounted to -€1,479 million compared to -€1,739 million in 2005. It includes cash flows used for financing activities with respect to transactions with shareholders amounting to -€2,110 million compared to -€1,723 million in 2005 and net cash provided by refinancing activities amounting to €631 million compared to -€16 million in 2005. After taking into account the favorable impact of non-cash transactions, the effect of financing activities on Financial Net Debt amounted to -€2,176 million (compared to -€1,887 million in 2005).

In 2006, cash flows used for financing activities is broken down as follows:

- Cash used for transactions with shareholders mainly included dividend payments in the amount of -€1,152 million made by Vivendi S.A. to its shareholders (-€1,147 million to Vivendi S.A. shareholders and -€5 million to shareholders of Vivendi Exchangeco) and dividend payments or, as the case may be, reimbursements of contribution of capital, made by consolidated subsidiaries to their minority shareholders (-€1,034 million). These cash outflows were partially offset by cash received following subscriptions to share capital by employees (€60 million, of which €30 million was received under Group Savings Plan and €30 million received following the exercise of vested stock options) and the disposal of treasury shares (€16 million).
- Refinancing transactions included the issuance of borrowings in the aggregate amount of -€1,919 million, which included (i) in October, two-tranche bonds offering by Vivendi (€700 million and €500 million), (ii) in April and October, the issuance by SFR of two notes (€300 million and €400 million), offset by debt repayment in the aggregate amount of €1,299 million, which included the repayment by SFR of a €550 million revolving credit facility, the redemption by Vivendi of a €305 million bond and the repayment by SPT of a MAD 2 billion facility (€182 million on that date).

In 2005, cash flows used for financing activities is broken down as follows:

- Cash used for transactions with shareholders which mainly included dividend payments of -€689 million made by Vivendi S.A. to its shareholders (-€639 million to Vivendi S.A. shareholders, €47 million paid to the bondholders of a bond mandatorily redeemable in Vivendi shares and -€3 million to shareholders of Vivendi Exchangeco) and dividend payments made by consolidated subsidiaries to their minority shareholders in the amount of -€965 million as well as cash used for treasury share repurchases (-€108 million).
- Refinancing transactions included the issuance of long-term borrowings in the aggregate amount of -€2,380 million which included (i) the issuance of notes by Vivendi in February and April in the amount of €600 million and €630 million, respectively, (ii) the

issuance by SFR in July of notes in the amount of €600 million, as well as the use of a €200 million revolving credit facility in July, and the setting up by SPT in January of a MAD 4 billion facility (€350 million). Vivendi's refinancing transactions also included the issuance of short-term borrowings comprised of SFR treasury bonds (€632 million) and the issuance by SPT of a MAD 2 billion tranche (€177 million), and debt repayment in the aggregate amount of €2,612 million, including the redemption of (i) the NBC Universal promissory note (€573 million) by Vivendi in January, (ii) bonds exchangeable into Vinci shares (€527 million) and (iii) the remaining high-yield bonds (€394 million), as well as the repayment by SFR of its securitization program (€423 million).

- In addition, the following non-cash items had an impact on Financial Net Debt:
  - the favorable impact of the partial redemption of bonds exchangeable into Sogecable shares (€363 million) held by Vivendi; and
  - the unfavorable impact of the change in the fair value of financial derivatives instruments for €212 million.

		Year ended December 31, 2006		
(In millions of euros)	Refer to section	Impact on cash and cash equivalents	Impact on borrowings and other (a)	Impact on Financial Net Debt
Dividends and other transactions with shareholders				
Net proceeds from issuance of common shares		(60)	-	(60)
(Sales) purchases of treasury shares		(16)	-	(16)
Dividends paid by Vivendi SA, €1 per share (May) (b)	1.1.11	1,152	-	1,152
Dividends and reimbursments of contribution of capital paid by consolidated companies to their minority shareholders		-	-	-
SFR (March/May/September) (c)		473	-	473
Maroc Telecom (May/June) (d)(e)		425	-	425
Canal+ Group		132	-	132
Other subsidiaries		4	-	4
		1,034	-	1,034
Dividends and other transactions with shareholders		€ **2,110**	€ **-**	€ **2,110**
Transactions on borrowings and other financial liabilities				
Setting up of long-term borrowings and increase in other long-term financial liabilities				
SFR - €300 million notes (April) (f)		(300)	300	-
SFR - €400 million notes (October) (g)		(400)	400	-
Vivendi - €700 million notes (October) (h)		(700)	700	-
Vivendi - €500 million notes (October) (h)		(500)	500	-
Other		(19)	19	-
		(1,919)	1,919	-
Principal payment on long-term borrowings and decrease in other long-term financial liabilities				
SFR - €1.2 billion revolving credit facility		550	(550)	-
Other		26	(26)	-
		576	(576)	-
Principal payments on short-term borrowings				
Vivendi - Bonds reimbursement		305	(305)	-
Maroc Telecom - MAD 6 billion notes - Tranche A: 2 billion (May)		182	(182)	-
Other		236	(236)	-
		723	(723)	-
Other changes in short-term borrowings and other short-term financial liabilities				
Other		(178)	178	-
		(178)	178	-
Non cash transactions				
Commitments to repurchase minority interests		-	(38)	(38)
Value changes in derivative instruments		-	(62)	(62)
Other activities with no cash impact		-	(7)	(7)
		-	(107)	(107)
Interest paid		203	-	203
Other cash items related to financing activities		(36)	6	(30)
Transactions on borrowings and other financial liabilities		***(631)***	***697***	***66***
Financing activities in 2006		€ **1,479**	€ **697**	€ **2,176**

(a) "Other" comprises commitments to purchase minority interests, derivative financial instruments and cash deposits backing borrowings.

(b) Includes the dividend paid by Vivendi SA to its shareholders in an amount of €1,147 million and the dividend paid to the shareholders of Vivendi Exchangeco (former Seagram shareholders) in the amount of €5 million.

(c) In 2006, SFR paid the remaining balance of the dividend with respect to the fiscal year 2005 and €1,075 million as an interim dividend with respect to fiscal year 2006, including €602 million paid to Vivendi.

(d) In 2006, Maroc Telecom paid dividends of €552 million, including €281 million paid to Vivendi.

(e) The Combined Shareholders' Meeting of Maroc Telecom held on March 30, 2006 decided to decrease the share capital by MAD 3.5 billion, or €315 million. Payment to shareholders, including €161 million paid to Vivendi, was made in June, 2006.

(f) On April 25, 2006, SFR issued €300 million notes at Euribor 3 months +0.09%, maturing October 2007.

(g) On October 31, 2006, SFR issued notes for €400 million with a 2-year maturity at a variable interest rate of Euribor 3 months +0.125%

(h) On October 3, 2006, Vivendi issued two-tranche bonds for an aggregated amount of €1.2 billion: the first tranche of €700 million, which maturity is 5 years, at a floating rate of Euribor 3 months + 50 basis points and the second tranche of €500 million, which maturity is 7 years, including a fixed interest of 4.5% issued for 99.366%. The notes are listed on the Luxembourg Stock Exchange.

Please refer to Notes 23 and 24 to the Consolidated Financial Statements for the year ended December 31, 2006.

(In millions of euros)	Year ended December 31, 2005 Impact on cash and cash equivalents	Impact on borrowings and other (a)	Impact on Financial Net Debt
Dividends and other transactions with shareholders			
Net proceeds from issuance of common shares	€ (39)	€ -	€ (39)
(Sales) purchases of treasury shares	108	-	108
Cash dividends paid by Vivendi S.A., €0.60 per share (May)	689	-	689
Cash dividends paid by subsidiaries to their minority shareholders			
SFR (March, May, September and November) (b)	712	-	712
Maroc Telecom (June) (c)	196	-	196
Other subsidiaries	57	-	57
	965	-	965
Dividends and other transactions with shareholders	***1,723***	-	***1,723***
Transactions on borrowings and other financial liabilities			
Setting up of long-term borrowings and increase in other long-term financial liabilities			
Maroc Telecom - MAD 6 billion borrowings - MAD 4 billion tranche (January) (d)	(350)	350	-
Vivendi - €600 million notes (February) (e)	(600)	600	-
Vivendi - €630 million notes (April) (f)	(630)	630	-
SFR - €600 million notes (July) (g)	(600)	600	-
SFR - €1.2 billion revolving credit facility	(200)	200	-
	(2,380)	2,380	-
Principal payment on long-term borrowings and decrease in other long-term financial liabilities			
Vivendi - High Yield Notes (January) (h)	394	(394)	-
Vivendi - Bonds exchangeable into Vinci shares (March)	527	(527)	-
Vivendi - Promissory note to USI (NBC Universal subsidiary) (January)	573	(573)	-
Partial redemption of bonds exchangeable into Sogecable shares (November, December)	-	(363)	(363)
Other	155	(155)	-
	1,649	(2,012)	(363)
Principal payments on short-term borrowings			
SFR - Securitization program	423	(423)	-
Other	540	(540)	-
	963	(963)	-
Net increase (decrease) in short-term borrowings and other			
SFR - Treasury bills	(632)	632	-
Maroc Telecom - MAD 6 billion borrowings - MAD 2 billion tranche (January) (d)	(177)	177	-
Other	(110)	110	-
	(919)	919	-
Non cash transactions			
Commitments to repurchase minority interests	-	7	7
Value changes in derivative instruments	-	(212)	(212)
Other activities with no cash impact	-	23	23
	-	(182)	(182)
Interest paid	218	-	218
Other cash items related to financing activities	485	6	491
Transactions on borrowings and other financial liabilities	***16***	***148***	***164***
Financing activities in 2005	***1,739***	***148***	***1,887***

(a) "Other" comprises commitments to purchase minority interests, derivative financial instruments and cash deposits backing borrowings.

(b) In 2005, SFR paid the remaining balance of the dividend with respect to the fiscal year 2004 and €1,614 million as an interim dividend with respect to the fiscal year 2005, including €902 million paid to Vivendi.

(c) Maroc Telecom paid in 2005 with respect to the fiscal year 2004, dividends of €398 million, including €202 million paid to Vivendi.

(d) To finance the purchase an additional 16% stake in Maroc Telecom on January 4, 2005, a MAD 6 billion note (i.e., €551 million as of December 31, 2005) was set up by Société de Participation dans les Télécommunications (SPT), a Moroccan company wholly-owned by Vivendi, which directly holds 51% of Maroc Telecom's shares. The borrowing comprises two tranches: a MAD 2 billion tranche with a 2006 maturity (reimbursed in May 2006) and a MAD 4 billion tranche with a 2011 maturity.

(e) On February 15, 2005, Vivendi issued notes for €600 million with a 3.9% yield rate, maturing February 15, 2012.

(f) On April 6, 2005, Vivendi issued notes for €630 million with a 3.63% yield rate, maturing April 2010.

(g) On July 18, 2005, SFR issued notes for €600 million with a 3.4% yield rate, maturing July 2012.

(h) On January 21, 2005, the remaining high-yield notes were redeemed for a principal amount of €394 million (corresponding to $107 million notes issued in dollars and €316 million notes issued in euros).

Please refer to Notes 23 and 24 to the Consolidated Financial Statements for the year ended December 31, 2006

Other borrowings in 2005

On April 19, 2005, a MAD 6 billion credit facility was set up by SPT, a wholly-owned Moroccan subsidiary of Vivendi, from Attijari, a Moroccan bank. This facility was backed by a cash collateral deposit made by Vivendi Telecom International (VTI) for the same amount. This cash deposit has the same maturity as the facility and is recoverable as the facility is repaid. For these reasons, the borrowing and the cash collateral are netted in Vivendi's consolidated statement of financial position. As of December 31, 2005, the credit facility and the related cash deposit were fully redeemed.

Available undrawn facilities

Vivendi issued 2 syndicated loans in the amount of €2 billion each:

- The first syndicated loan, maturing April 2011, was extended in February 2007 by one year until April 2012.
- The second one set up in August 2006, with a five year maturity, can be extended by two years, subject to the approval of the lenders.

As of February 27, 2007, the date of the Management Board's meeting which approved the financial statements for the year ended December 31, 2006, considering the amount of treasury bond issued on that day, the syndicated loan was available in an amount of €3,635 million.

SFR set up a credit line of €1.2 billion (April 2011), and a credit line of €450 million (November 2011). The later can be extended by one year. As of February 27, 2007, date of the Management Board meeting which approved the financial statements for the year ended December 31, 2006, considering the amount of treasury bonds issued on that day, the two credit lines were available in an amount of €653 million.

5.5 Main financing characteristics and credit ratings

5.5.1 CREDIT RATINGS

As of February 27, 2007, date of the Management Board meeting which approved the financial statements for the year ended December 31, 2006, the credit ratings were as follows:

Rating agency	Rating date	Type of debt	New ratings	Outlook	Previous ratings	
Standard & Poor's	July 27, 2005	Long-term *corporate*	BBB	Stable	BBB -	(June 1, 2004)
		Short-term *corporate*	A-2		A-3	
		Senior unsecured debt	BBB		BBB -	
Moody's	September 13, 2005	Long-term senior unsecured debt	Baa2	Stable	Baa3	(October 22, 2004)
Fitch Ratings	December 10, 2004	Long-term senior unsecured debt	BBB	Positive (December 19, 2005)	BBB-	(May 12, 2004)

5.5.2 AVERAGE MATURITY

The average term of the different instruments included in Vivendi's consolidated debt may be assessed using two methodologies:

- The "accounting" average term takes into account short-term draw downs on medium-term credit lines for the term of the short-term draw-down. At the end of 2006, the "accounting" average term of Vivendi Group debt was 3 years, compared to 3.3 years at the end of 2005.
- The "economic" average term considers that all undrawn amounts on available medium-term credit lines may be used to repay Group borrowings with the shortest term. As of December 31, 2006, under this definition, the average term of Vivendi's consolidated debt was 4.9 years and 5.2 years when taking into account the extension of the duration by one year obtained in February 2007 for one of the two €2 billion credit lines (compared to 4.8 years at the end of 2005).

5.5.3 DESCRIPTION OF MAIN COVENANTS

Vivendi and its subsidiary SFR are subject to certain financial covenants which require them to maintain various financial ratios computed at the end of each half-year, described hereunder. As of December 31, 2006, Vivendi and SFR were in compliance with applicable financial ratio.

- Loans

Regarding Vivendi, the two syndicated facilities (each of €2.0 billion set up in March 2005 and April 2006), contain customary provisions related to events of default and restrictions in terms of negative pledge and divestiture and merger transactions. In addition, Vivendi is required to maintain a ratio of Proportionate Financial Net Debt[9] to proportionate EBITDA[10] at a maximum of 3 for the duration of the loan.

Regarding SFR, the two credit lines (€1.2 billion and €450 million) contain customary default, negative pledge and merger and divestiture restrictions. These facilities are subject to a change in ownership clause. In addition, SFR must comply at the end of each semester, with the two following financial ratios: (i) a ratio of Financial Net Debt to EBITDA not exceeding 3.5:1; and (ii) a ratio of Earnings from operations to Net Financing costs (interest) equal to or greater than 3:1.

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[9] Defined as Vivendi Financial Net Debt less the share of Financial Net Debt attributable to minority shareholders of SFR and Maroc Telecom.

[10] Defined as Vivendi modified EBITDA less modified EBITDA attributable to minority shareholders of SFR and Maroc Telecom plus the dividends received from entities that are not consolidated.

Lastly, on January 4, 2005, SPT issued a MAD 6 billion facility to finance the acquisition of an additional 16% of Maroc Telecom. The borrowing is comprised of two tranches: a MAD 2 billion tranche that was early terminated in May 2006 and a MAD 4 billion tranche with a 2011 maturity date. Vivendi has granted a security (jointly liable guarantee) to SPT in the amount of MAD 6 billion. The security contract contains the same financial ratios as those included in the €2 billion syndicated loan, set up in April 2005.

– Bonds

Bonds issued by Vivendi (total of €3,626 million as of December 31, 2006) and its subsidiary SFR (€1,300 million as of December 31, 2006) contain customary provisions related to default, negative pledge and pari-passu. In addition the last two bonds issued in October 2006 by Vivendi for a total amount of €1.2 billion, contain a change-of-control provision subject to a downgrade of their rating below investment grade status (Baa3/BBB-) resulting from such event.

5.5.4 FINANCIAL NET DEBT OF SFR AND MAROC TELECOM

As of December 31, 2006, the Financial Net Debt of SFR amounted to €2,257 million (compared to €2,235 million as of December 31, 2005) and included borrowings of €2,356 million (compared to €2,252 million as of December 31, 2005). In addition, on January 16, 2007, SFR paid its fourth interim dividend with respect to fiscal year 2006 (€448 million, of which €197 million was paid to Vodafone).

As of December 31, 2006, before taking into account Onatel's Financial Net Debt, Maroc Telecom showed a net cash position of €241 million (compared to €685 million as of December 31, 2005).

6 FORWARD LOOKING STATEMENTS

This report contains forward-looking statements with respect to the financial condition, results of operations, business, strategy and plans of Vivendi. Although Vivendi believes that such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance. Actual results may differ materially from the forward-looking statements as a result of a number of risks and uncertainties, many of which are outside Vivendi's control, including, but not limited to the risk that Vivendi will not be able to obtain the necessary regulatory approvals in connection with certain transactions as well as the risks described in the documents Vivendi filed with the Autorité des Marchés Financiers (French securities regulator) and which are also available in English on Vivendi's web site (www.vivendi.com). Investors and security holders may obtain a free copy of documents filed by Vivendi with the Autorité des Marchés Financiers at www.amf-france.org, or directly from Vivendi. The present forward-looking statements are made as of the date of the present report and Vivendi disclaims any intention or obligation to provide, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

7 DISCLAIMER

This report is an English translation of the French version of such report and is provided for informational purposes. This translation is qualified in its entirety by the French version which is available on the company's web site (www.vivendi.com). In the event of any inconsistencies between the French version of this report and the English translation, the French version will control.

II - Appendix to Annual Financial Report

Effect of change in presentation of operating performance since June 30, 2006

Please refer to Section 2 of the Annual Financial Report for definition of EBITA.

Reconciliation from earnings from operations to EBITA by business segment in 2005 and 2004:

Year Ended December 31, 2005 (in millions of euros)	Earnings from operations as published	Reversal of amortization of intangible assets acquired through business combinations	EBITA
Universal Music Group	480	201	**681**
Vivendi Games	41	14	**55**
Canal+ Group	203	-	**203**
SFR	2,422	-	**2,422**
Maroc Telecom	762	24	**786**
Holding & Corporate	(195)	-	**(195)**
Non core operations	33	-	**33**
Total Vivendi	**€ 3,746**	**€ 239**	**€ 3,985**

Year Ended December 31, 2004 (in millions of euros)	Earnings from operations as published	Reversal of amortization of intangible assets acquired through business combinations	EBITA
Universal Music Group	359	233	**592**
Vivendi Games	(203)	15	**(188)**
Canal+ Group	188	-	**188**
SFR	2,332	-	**2,332**
Maroc Telecom	662	23	**685**
Holding & Corporate	(193)	-	**(193)**
Non core operations	88	-	**88**
Total Vivendi	**€ 3,233**	**€ 271**	**€ 3,504**

Summary of effect of change in presentation regarding adjusted net earnings, attributable to equity holders of the parent, in 2005 and 2004

	Year ended December 31,	
(in millions of euros)	2005	2004
IFRS Adjusted net income as previously published	**2,078**	**1,338**
Reversal of amortization of intangible assets acquired through business combinations (a)	239	271
Related tax impacts	(89)	(100)
Minority interests	(10)	(11)
IFRS Adjusted net income, attributable to equity holders of the parent (new definition)	**€ 2,218**	**€ 1,498**

III CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

Statutory Auditors' Report on the Consolidated Financial Statements[1]

To the shareholders,

In compliance with the assignment entrusted to us by your general meetings, we have audited the accompanying consolidated financial statements of Vivendi for the year ended December 31, 2006.

These consolidated financial statements have been approved by the Management Board. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion set out hereafter.

We certify that the consolidated financial statements give a true and fair view of the assets and liabilities, and of the financial position as well as the results of operations of the Group of individuals and entities included in the consolidation, in accordance with the IFRSs as adopted by the EU.

II. Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Law (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

- In the context of our appreciation of the accounting principles, we verified that note 1.1 to the financial statements provided appropriate information concerning the accounting method your company used concerning the acquisition of an additional interest in a consolidated subsidiary, the Company's commitments to purchase minority interests in its subsidiaries and the loyalty bonuses, due to the lack of a specific provision in the IFRSs as adopted by the EU on these matters.

- Your company does not consolidate its shareholding in PTC and has reduced the value of these shares to zero in the balance sheet in view of the litigation related to this shareholding, as described in notes 2.4 and 30 to the financial statements. Within the scope of our assessment of the accounting rules and principles used by your company, we have assessed the assumptions used and ensured the reasonableness of the approach used.

- On each closing date, your company systematically does an impairment test of goodwill and assets with indefinite lives and also assess if there is an indication for any loss of value of other tangible and intangible assets, under the conditions indicated in note 1.3.5.6 to the financial statements. We examined the implementation conditions of this impairment test and checked that note 1.3.5.6. gives the appropriate information.

[1] *This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the financial statements. This information includes explanatory paragraphs discussing the auditors' assessment(s) of certain significant accounting matters. These assessments were made for the purpose of issuing an opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. The report also includes information relating to the specific verification of information in the group management report.*

- Your company reassessed the value of equity-accounted NBC Universal shares under the conditions indicated in note 14 to the financial statements. We have examined the valuation methods used by your company. Within the scope of our assessment of such methods, we have assessed the assumptions used and ensured the reasonableness of the resulting evaluations.

- Your company forms provisions to cover risks relative to financial transactions undertaken, share-based compensation, pension commitment, litigation, restructuring, taxes payable, tax risks and other risks, as described in notes 6, 19, 20, 21 and 22 to the financial statements. We assessed the methods used by your company, described in the notes, on the basis of information available to date, and carried out tests in order to verify their application through sampling. Within the scope of our assessment, we ensured the reasonableness of the resulting estimates.

- Your company recognized a deferred tax asset corresponding to losses carried forward in the context of the consolidated global profit tax system, according to the evaluation conditions described in note 6.2 to the financial statements. We assessed the method used, as described in the notes, on the basis of information available to date, and carried out tests in order to verify their application through sampling. Within the scope of our assessment, we ensured the reasonableness of the resulting evaluations.

The assessments were thus made in the context of the performance of our audit of the consolidated financial statements taken as a whole and therefore contributed to the formation of our audit opinion set out in the first part of this report.

III. Specific verification

In accordance with the professional standards applicable in France, we have also verified the information given in the group management report. We have no matters to report regarding its fair presentation and conformity with the consolidated financial statements.

Paris-La Défense and Neuilly-sur-Seine, March 7, 2007

The Statutory Auditors

Salustro Reydel
Membre de KPMG International

Ernst & Young et Autres

Benoît Lebrun

Marie Guillemot

Dominique Thouvenin

NOTA: In accordance with European Commission regulation (EC) 809 /2004 of April 29, 2004 (Article 28) which sets out the disclosure obligations for issuers of securities on a regulated market in the European Union (The "Prospectus Directive"), the followings items are included as reference:

- **The Consolidated Financial Statements as of December 31, 2005 prepared under IFRS and the related report of independent registered public accounting firms are presented in pages 174 through 286 and in pages 172 through 173, respectively, of the Document de Référence n°D06-0178 filed with the French Autorité des Marchés Financiers (AMF) on March 28, 2006 and in pages 174 through 286 and in pages 172 through 173, respectively, of the English translation of the Document de Référence filed on Form 6-K with the SEC on May 31, 2006.**
- **The Consolidated Financial Statements as of December 31, 2004 prepared under French GAAP and the related report of independent registered public accounting firms are presented in pages 163 through 248 and in pages 161 through 162, respectively, of the Document de Référence n°D05-0456 filed with the AMF on April 18, 2005 or, for an English version, in pages F-6 through F-118 and in page F-5, respectively, of the Form 20-F filed with the SEC on June 29, 2005.**

Consolidated Statement of Earnings for the years ended December 31, 2006 and 2005

(In millions of euros, except per share amounts)	Note		Year Ended December 31, 2006		2005
Revenues	4.1	**€**	**20,044**	**€**	**19,484**
Cost of revenues	4.1		(10,146)		(9,898)
Selling, general and administrative expenses			(5,756)		(5,807)
Restructuring charges and other operating charges and income			5		(33)
Impairment losses of intangible assets acquired through business combinations	4.4		-		(170)
Earnings before interest and income taxes (EBIT)			**4,147**		**3,576**
Income from equity affiliates	14		337		326
Interest	5.1		(203)		(218)
Income from investments	5.2		54		75
Other financial charges and income	5.3		311		619
Earnings from continuing operations before provision for income taxes			**4,646**		**4,378**
Provision for income taxes	6		547		(204)
Earnings from continuing operations			**5,193**		**4,174**
Earnings from discontinued operations	7		-		92
Earnings			**5,193**		**4,266**
Attributable to :					
Equity holders of the parent		**€**	**4,033**	**€**	**3,154**
Minority interests			1,160		1,112
Earnings from continuing operations, attributable to the equity holders of the parent per share - basic (in euros)	8	€	3.50	€	2.70
Earnings from continuing operations, attributable to the equity holders of the parent per share - diluted (in euros)	8	€	3.47	€	2.68
Earnings from discontinued operations per share - basic (in euros)	8	€	-	€	0.08
Earnings from discontinued operations per share - diluted (in euros)	8	€	-	€	0.08
Earnings, attributable to the equity holders of the parent per share - basic (in euros)	**8**	**€**	**3.50**	**€**	**2.74**
Earnings, attributable to the equity holders of the parent per share - diluted (in euros)	8	€	3.47	€	2.72
Adjusted net income, attributable to equity holders of the parent (in euros)	8	**€**	**2,614**	**€**	**2,218**
Adjusted net income, attributable to equity holders of the parent per share - basic (in euros)	8	**€**	**2.27**	**€**	**1.93**
Adjusted net income, attributable to equity holders of the parent per share - diluted (in euros)	8	€	2.25	€	1.91

The accompanying notes are an integral part of these Consolidated Financial Statements.

Disclaimer: The English translation of the Consolidated Financial Statements originally prepared in French has been prepared solely for the convenience of English-speaking readers. Despite all the efforts devoted to this translation, certain errors, omissions or approximations may subsist. Vivendi, its representatives and employees decline all responsibility in this regard. In the event of a discrepancy, the French-language version will control.

Consolidated Statement of Financial Position as of December 31, 2006 and December 31, 2005

(In millions of euros)	Note	December 31, 2006	December 31, 2005
ASSETS			
Goodwill	9	€ 13,068	€ 13,796
Non current content assets	10	2,120	2,462
Other intangible assets	11	2,262	1,937
Property, plant and equipment	12	4,379	4,331
Investments in equity affiliates	14	7,032	6,856
Non current financial assets	15	3,164	3,783
Deferred tax assets	6	1,484	1,784
Non current assets		**33,509**	**34,949**
Inventories	16	358	375
Current tax receivables	6	617	822
Current content assets	10	842	790
Trade accounts receivable and other	16	4,489	4,531
Short-term financial assets	15	833	114
Cash and cash equivalents	17	2,400	2,902
Current assets		**9,539**	**9,534**
TOTAL ASSETS		**€ 43,048**	**€ 44,483**
EQUITY AND LIABILITIES			
Share capital		€ 6,364	€ 6,344
Additional paid-in capital		7,257	6,939
Treasury shares		(33)	(60)
Retained earnings and other		6,324	5,546
Equity, attributable to Vivendi's shareholders	18	**19,912**	**18,769**
Minority interests		1,952	2,839
Total equity		**21,864**	**21,608**
Non current provisions	19	1,388	1,220
Long-term borrowings and other financial liabilities	23	4,714	4,545
Deferred tax liabilities	6	1,070	3,476
Other non current liabilities	16	1,269	1,342
Non current liabilities		**8,441**	**10,583**
Current provisions	19	398	578
Short-term borrowings and other financial liabilities	24	2,601	2,215
Trade accounts payable and other	16	9,297	8,737
Current tax payables	6	447	762
Current liabilities		**12,743**	**12,292**
Total liabilities		**21,184**	**22,875**
Contractual obligations and contingent assets and liabilities	29	-	-
TOTAL EQUITY AND LIABILITIES		**€ 43,048**	**€ 44,483**

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows for the years ended December 31, 2006 and 2005

(In millions of euros)	Note	Year Ended December 31, 2006	2005
Operating activities:			
EBIT		€ 4,147	€ 3,576
Adjustments	27.1	1,703	1,528
Content investments, net	10	(111)	(15)
Gross cash provided by operating activities before income tax paid		***5,739***	***5,089***
Other changes in net working capital	16	67	(33)
Net cash provided by operating activities before income tax paid		***5,806***	***5,056***
Income tax paid	6	(1,381)	(1,386)
Net cash provided by operating activities		**4,425**	**3,670**
Investing activities:			
Capital expenditures		(1,690)	(1,380)
Purchases of consolidated companies, after acquired cash	2	(1,022)	(1,311)
Investments in equity affiliates	14	(724)	-
Increase in financial assets	15	(2,135)	(170)
Investments		***(5,571)***	***(2,861)***
Proceeds from sales of property, plant, equipment and intangible assets		45	89
Proceeds from sales of consolidated companies, after divested cash	2	7	(361)
Disposals of equity affiliates	14	42	72
Decrease in financial assets	15	1,752	444
Divestitures		***1,846***	***244***
Dividends received from equity affiliates	14	271	355
Dividends received from unconsolidated companies		34	37
Net cash provided by (used for) investing activities		**(3,420)**	**(2,225)**
Financing activities:			
Net proceeds from issuance of common shares		60	39
Sales (purchases) of treasury shares		16	(108)
Dividends paid by Vivendi S.A. to its shareholders		(1,152)	(689)
Dividends and reimbursements of contribution of capital paid by consolidated companies to their minority shareholders		(1,034)	(965)
Dividends and other transactions with shareholders		***(2,110)***	***(1,723)***
Setting up of long-term borrowings and increase in other long-term financial liabilities	23	1,919	2,380
Principal payment on long-term borrowings and decrease in other long-term financial liabilities	23	(576)	(1,649)
Principal payment on short-term borrowings	24	(723)	(963)
Other changes in short-term borrowings and other short-term financial liabilities	24	178	919
Interest paid	5.1	(203)	(218)
Other cash items related to financial activities		36	(485)
Transactions on borrowings and other financial liabilities		***631***	***(16)***
Net cash provided by (used for) financing activities		**(1,479)**	**(1,739)**
Foreign currency translation adjustments		(28)	37
Change in cash and cash equivalents		**(502)**	**(257)**
Cash and cash equivalents:			
At beginning of the period		2,902	3,159
At end of the period		€ 2,400	€ 2,902

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity for the years ended December 31, 2006 and 2005

Year ended December 31, 2006

(In millions of euros, except number of shares)	Note	Attributable to Vivendi S.A. shareholders: Common shares: Number of shares (in thousands)	Common shares: Amount	Additional paid-in capital	Treasury shares	Retained Earnings and Other: Retained earnings	Retained Earnings and Other: Net unrealized gains (losses)	Retained Earnings and Other: Foreign currency translation adjustments	Retained Earnings and Other: Total	Equity, attributable to equity holders of the parent	Minority interests	Total equity
BALANCE AS OF DECEMBER 31, 2005		**1,153,477**	**6,344**	**6,939**	**(60)**	**5,349**	**898**	**(702)**	**5,546**	**18,769**	**2,839**	**21,608**
Dividends paid by Vivendi S.A. (€1.0 per share)		-	-	-	-	(1,152) (a)	-	-	(1,152)	(1,152)	-	(1,152)
Repayment of Vivendi Exchangeco shares	18.2	-	-	278	-	(278)	-	-	(278)	-	-	-
Other transactions with shareholders		3,557 (b)	20	40	27	(14) (c)	-	-	(14)	73	-	73
Dividends and other transactions with Vivendi SA shareholders		**3,557**	**20**	**318**	**27**	**(1,444)**	**-**	**-**	**(1,444)**	**(1,079)**	**-**	**(1,079)**
Acquisition of an additional 7.7% stake in USHI	2.2	-	-	-	-	-	-	-	-	-	(832)	(832)
Dividends and reimbursments of contribution of capital paid by subsidiaries to minority interests		-	-	-	-	-	-	-	-	-	(1,232)	(1,232)
Other transactions with minority interests		-	-	-	-	-	-	-	-	-	22	22
Transactions with minority interests		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,042)**	**(2,042)**
Earnings		-	-	-	-	4,033	-	-	4,033	4,033	1,160	5,193
Charges and income directly recognized in equity		-	-	-	-	(31)	(803)	(977)	(1,811)	(1,811)	(5)	(1,816)
Total recognized charges and income for the period		**-**	**-**	**-**	**-**	**4,002**	**(803)**	**(977)**	**2,222**	**2,222**	**1,155**	**3,377**
Total changes over the period		**3,557**	**20**	**318**	**27**	**2,558**	**(803)**	**(977)**	**778**	**1,143**	**(887)**	**256**
BALANCE AS OF DECEMBER 31, 2006		**1,157,034**	**6,364**	**7,257**	**(33)**	**7,907 (d)**	**96**	**(1,679)**	**6,324**	**19,912**	**1,952 (e)**	**21,864**

The accompanying notes are an integral part of these Consolidated Financial Statements.

(a) Includes €5 million paid to shareholders of Vivendi Exchangeco (former Seagram shareholders).

(b) Corresponds to capital increases subscribed by employees in connection with the stock purchase plan (€30 million for approximately 1.5 million shares) or stock option plans (€30 million for approximately 2.1 million shares).

(c) Includes the counterpart of the share-based compensation cost related to equity-settled instruments for the period (€53 million) and the reclassification of the estimated value of the vested rights as of May 15, 2006 of the ADS option plans, converted into SARs plans in liabilities, as non current provisions (-€67 million). Please refer to Note 21 "Share-based compensation".

(d) Retained earnings are mainly comprised of previous years' earnings which were not distributed and 2006 earnings attributable to equity holders of the parent.

(e) Includes cumulative foreign currency translation adjustments of -€36 million.

Year ended December 31, 2005

(In millions of euros, except number of shares)	Note	Attributable to Vivendi S.A. shareholders: Common shares: Number of shares (In thousands)	Common shares: Amount	Additional paid-in capital	Treasury shares	Retained Earnings and Other: Retained earnings	Retained Earnings and Other: Net unrealized gains (losses)	Retained Earnings and Other: Foreign currency translation	Retained Earnings and Other: Total	Equity, attributable to equity holders of the parent	Minority interests	Total equity
BALANCE AS OF DECEMBER 31, 2004		1,072,624	5,899	7,313	(12)	2,932	910	(1,593)	2,249	15,449	2,643	18,092
Redemption of ORA (November 2005)		78,672	433	(433)	-	-	-	-	-	-	-	-
Dividends paid by Vivendi S.A. (€0.6 per share)		-	-	-	-	(689) (a)	-	-	(689)	(689)	-	(689)
Other transactions with shareholders		2,181	12	59	(48)	12	-	-	12	35	-	35
Dividends and other transactions with Vivendi SA shareholders		80,853	445	(374)	(48)	(677)	-	-	(677)	(654)	-	(654)
Acquisition of an additional 16% stake in Maroc Telecom	2.5	-	-	-	-	-	-	-	-	-	(38)	(38)
Dividends and reimbursments of contribution of capital paid by subsidiaries to minority interests		-	-	-	-	-	-	-	-	-	(965)	(965)
Other transactions with minority interests		-	-	-	-	-	-	-	-	-	(18)	(18)
Transactions with minority interests		-	-	-	-	-	-	-	-	-	(1,021)	(1,021)
Earnings		-	-	-	-	3,154	-	-	3,154	3,154	1,112	4,266
Charges and income directly recognized in equity		-	-	-	-	(60)	(11)	891	820	820	105	925
Total recognized charges and income for the period		-	-	-	-	3,094	(11)	891	3,974	3,974	1,217	5,191
Total changes over the period		80,853	445	(374)	(48)	2,417	(11)	891	3,297	3,320	196	3,516
BALANCE AS OF DECEMBER 31, 2005		1,153,477	6,344	6,939	(60)	5,349	899	(702)	5,546	18,769	2,839 (b)	21,608

The accompanying notes are an integral part of these Consolidated Financial Statements.

(a) Includes €47 million paid to the holders of ORA (November 2005) and €3 million paid to shareholders of Vivendi Exchangeco (former Seagram shareholders).

(b) Includes cumulative foreign currency translation adjustments of € 2 million.

Statement of Recognized Charges and Income for the years 2006 and 2005

(In millions of euros)	Note	Year Ended December 31, 2006			Year Ended December 31, 2005		
		Charges and income recorded over the period	Attributable to : Vivendi SA's shareholders	Minority interests	Charges and income recorded over the period	Attributable to : Vivendi SA's shareholders	Minority interests
Net income		**5,193**	**4,033**	**1,160**	**4,266**	**3,154**	**1,112**
- Foreign currency translation adjustments		**(1,021)**	**(977)** (a)	**(44)**	**1,002**	**891** (a)	**111**
. Assets available for sale	15.1	*(847)*	*(847)*	-	*(87)*	*(86)*	*(1)*
- Valuation gains/(losses) taken to equity		(7)	(7)	-	170	171	(1)
- Transferred to profit or loss on divestiture		(840)	(840)	-	(257)	(257)	-
. Cash flow hedges		*25*	*20*	*5*	*(1)*	*(1)*	-
. Tax		*23*	*24*	*(1)*	*76*	*76*	-
- Unrealized gains (losses)		**(799)**	**(803)**	**4**	**(12)**	**(11)**	**(1)**
. Charges and income directly recorded in equity related to equity affiliates		5	5	-	*(11)*	*(10)*	*(1)*
. Other		*(1)*	*(36)*	*35*	*(54)*	*(50)*	*(4)*
- Other impacts on retained earnings		**4**	**(31)**	**35**	**(65)**	**(60)**	**(5)**
Charges and income directly recognized in equity		**(1,816)**	**(1,811)**	**(5)**	**925**	**820**	**105**
Total recognized charges and income for the period		**3,377**	**2,222**	**1,155**	**5,191**	**3,974**	**1,217**

The accompanying notes are an integral part of these Consolidated Financial Statements.

(a) Includes changes in foreign currency translation adjustments relating to the investment in NBC Universal of -€662 million in 2006 and €761 million in 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Vivendi is a limited liability company (*société anonyme*) incorporated under French law, and subject to French commercial company legislation and, in particular, the French Commercial Code (*Code de commerce*). Vivendi was incorporated on December 18, 1987, for a term of 99 years expiring on December 17, 2086, except in the event of an early dissolution or unless extended. Its registered office is located at 42 avenue de Friedland 75008 Paris (France). Vivendi is listed on the Paris stock exchange Compartiment A.

Vivendi is a leader in entertainment with activities in music, TV, cinema, mobile, fixed and internet, and games.

The Consolidated Financial Statements reflect the financial and accounting situation of Vivendi and its subsidiaries (the "Group"), together with interests in equity affiliates and joint ventures. They are reported in euros, and all values are rounded to the nearest million.

On February 27, 2007, the Management Board approved the Annual Financial Report and the Consolidated Financial Statements for the year ended December 31, 2006, which were presented to the Audit Committee on February 28, 2007. On March 6, 2007, the Supervisory Board examined the Annual Financial Report and the Consolidated Financial Statements for the year ended December 31, 2006, as approved by the Management Board on February 27, 2007.

On April 19, 2007, the Consolidated Financial Statements for the year ended December 31, 2006 will be submitted for approval at Vivendi's Annual General Shareholders' meeting.

Note 1. Accounting policies and valuation methods

1.1. Compliance with accounting standards

The Consolidated Financial Statements of Vivendi S.A. have been prepared in accordance with International Financial Reporting Standards (IFRS).

Vivendi prepared its 2006 Consolidated Financial Statements and its 2005 comparative financial statements adopting:

- All mandatory IFRS/IFRIC (International Financial Reporting Interpretations Committee) standards and interpretations as of December 31, 2006. All these standards and interpretations, as applied by Vivendi, have been adopted by the EU.
- Vivendi has chosen to apply, IAS 32 and 39, IFRS 5 and IFRIC Interpretation 4 from January 1, 2004 onwards,
- The following options, pending publication of a decision of the IASB or IFRIC on the matter:

  - In the absence of guidance provided by the IFRS, in the event of the acquisition of an additional interest in a subsidiary, Vivendi recognizes the excess of the acquisition cost over the carrying amount of minority interests acquired as goodwill.
  - In accordance with IAS 32, put options granted by Vivendi to holders of minority interests in its subsidiaries are reported as financial liabilities at the present value of the cost of acquisition. In the absence of guidance provided by IFRS 3 on business combinations and pending publication of an IASB/IFRIC interpretation, Vivendi accounts for as goodwill the difference arising on initial recognition of these options, between the carrying amount of the minority interests and the present value of the cost of acquisition. The subsequent change in this present value (with the exception of the undiscounting effect or expected losses) is also accounted for as goodwill.
  - Pending a final IFRIC interpretation, Vivendi does not accrue loyalty coupons granted to the customers of SFR, Maroc Telecom and Canal+, which do not result in an additional cost. In effect, these bonuses do not represent a benefit greater than that granted to new customers at the inception date of a contract. Loyalty coupons convertible into free services are accrued. Such recognition is compliant with IFRIC D20-IAS18 drafted by IFRIC which sets forth the accounting treatment of customer loyalty programs.

- New standards applied:

  - Vivendi applied IFRIC Interpretation 11 and IFRS 2 ("Group Treasury Share Transactions") as published by the IFRIC but not yet adopted by the EU. Such transactions were previously recognized by Vivendi in a manner that is consistent with these standards. Therefore applying these standards had no significant impact on Vivendi's Consolidated Financial Statements as of December 31, 2006.
  - Vivendi applied IFRIC Interpretation 6 "Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment", which was adopted by the UE on January 11, 2006 and published in the Official Journal of the EU on January 27, 2006, to each of its activities in the jurisdictions concerned. The first application of IFRIC 6 did not have any significant impact on the Consolidated Financial Statements as of December 31, 2006.

1.2. Changes in the Presentation of the Consolidated Financial Statements

As of June 30, 2006, considering the practice of major European companies with respect to the application of IFRS and the accounting impact of acquisitions, Vivendi has made the following changes to the presentation of its consolidated statement of earnings and its consolidated statement of cash flows as well as the operating performances of its business segments and of the Group. Pursuant to IAS 1, Vivendi has applied these presentation changes to all the periods presented in these financial statements.

1.2.1 Change in the presentation of the consolidated statement of earnings

Vivendi Management has decided to simplify the consolidated statement of earnings presentation by eliminating certain subtotals which are not currently used. Pursuant to IAS 1, the main line items presented in the consolidated statement of earnings of Vivendi are revenues, income from equity affiliates, interest, provision for income taxes, earnings from discontinued operations and earnings.

In addition, the presentation of the consolidated statement of earnings now includes a subtotal known as "EBIT". EBIT is defined as the difference between charges and income that do not result from financing activities, equity affiliates, discontinued operations and tax. As a result, EBIT includes the following items:

- revenues (*) (**);
- cost of revenues (*);
- selling, general and administrative expenses,(*) including costs related to employee benefit plans (excluding the financial component) and share-based payments;
- restructuring costs (**);
- changes in the fair value of foreign currency hedging instruments relating to operating activities;
- proceeds from disposals of property, plant and equipment and intangible assets (**);
- amortization of intangibles acquired through business combinations (**); and
- impairment losses of goodwill and other intangibles acquired through business combinations (*) (**).

EBIT does not include the following items:

- income from equity affiliates (*) (**);
- interest (*) (**) which includes interest expenses on borrowings, interest expenses or income from interest rate swaps and interest income from cash and cash equivalents;
- income from investments, including dividends received from unconsolidated interests as well as interest collected on current account advances to equity affiliates and loans to unconsolidated interests (*) (**);
- other financial charges and income (*) (**), which primarily include changes in derivative instruments, the effect of amortized cost accounting for borrowings (including premiums paid in connection with the early redemption of borrowings and the unwinding of derivative instruments), the cash impact of foreign currency hedging (other than operating activities that are included in the EBIT), the financial components of employee benefits (including interest cost and expected return on plan assets) and gains and losses on the divestiture of available-for-sale securities, held for trading securities, and consolidated operations or consolidated entities, that qualify as discontinued operations;
- earnings from discontinued operations (*) (**); and
- provision for income taxes (*) (**).

(*) items as presented in the consolidated statement of earnings (**) items as reported by each business unit segment.

1.2.2 Change in the presentation of the consolidated statement of cash flows

As a result of the change in the presentation of the consolidated statement of earnings, Vivendi Management decided to change the presentation of the consolidated statement of cash flows in accordance with IAS 7.

- Net cash provided by operating activities

Net cash provided by operating activities is now calculated using the indirect method based on EBIT instead of earnings. EBIT is adjusted for non-cash impact items and the change in net working capital. Net cash provided by operating activities now excludes the cash impact of financial charges and income and the net change in working capital related to property, plant and equipment and intangible assets.

- Net cash used for investing activities

Net cash used for investing activities now includes the change in net working capital related to property, plant and equipment and intangible assets as well as the cash impact of income received from financial investments (particularly, dividends received from equity affiliates).

- Net cash used for financing activities

Net cash used for financing activities now includes the net interest paid on borrowings and cash and cash equivalents as well as the cash impact of other items related to financing activities such as premiums paid in connection with the early redemption of borrowings, the unwinding of derivative instruments and the cash impact of foreign currency hedging.

1.2.3 Change in presentation of the operating performance by business segment and of the Group

- EBITA

Vivendi Management evaluates the performance of the business segments and allocates necessary resources to them based on certain operating indicators (segment earnings and cash flow from operations). Until June 30, 2006, reported segment earnings were calculated on the basis of the earnings from operations for each business.

Beginning June 30, 2006, earnings from operations (EFO) was replaced by adjusted earnings before interest and income taxes (EBITA), a non-GAAP measure, as the key operating performance measure of the business units reported in the segment data. The difference between EBITA and previously published EFO consists of the amortization of intangible assets acquired through business combinations that is excluded from EBITA. The method used in calculating EBITA therefore eliminates the accounting impact of the amortization of intangible assets acquired through business combinations and enables the operating performance of the business segments to be measured:

- on a comparable basis, regardless of whether their activity results from the company's internal growth or acquisitions ; and
- on a basis closer to the cash that they generate, by eliminating accounting amortization with no cash impact.

The difference between EBITA and EBIT consists of the amortization of intangible assets acquired through business combinations and the impairment of goodwill and other intangibles acquired through business combinations that are included in EBIT.

- Adjusted net income attributable to equity holders of the parent

Vivendi considers adjusted net income, attributable to equity holders of the parent, a non-GAAP measure, as a relevant indicator of the Group's operating and financial performance. Vivendi Management uses adjusted net income, attributable to equity holders of the parent, because it better illustrates the performance of continuing operations by excluding most non-recurring and non-operating items.

Following the adoption of EBITA as the key operating performance measure of the business segments reported in the segment data, Vivendi Management decided to change the method for calculating adjusted net income by excluding amortization of intangible assets acquired through business combinations.

Adjusted net income, attributable to equity holders of the parent, includes the following items:

- EBITA (**);
- income from equity affiliates (*) (**);
- interest (*) (**);
- income from investments (**); and
- taxes and minority interests related to these items.

It does not include the following items:

- impairment losses of goodwill and other intangibles acquired through business combinations (*) (**);
- the amortization of intangibles acquired through business combinations (**);
- other financial charges and income (*) (**);
- earnings from discontinued operations (**);
- provision for income taxes and minority interests relating to these adjustments; and
- non-recurring tax items (notably the changes in deferred tax assets relating to the Consolidated Global Profit Tax System and the reversal of tax liabilities relating to risks extinguished over the period).

(*) items as presented in the consolidated statement of earnings (**) items as reported by each business unit segment.

1.2.4 Change in presentation of the consolidated statement of financial position

Assets and liabilities expected to be realized in, or intended for sale or consumption in the entity's normal operating cycle which normally consists of 12 months, are recorded as current assets or liabilities. If their maturity exceeds this period, they are recorded as non-current assets or liabilities.

1.3. Principles governing the preparation of the Consolidated Financial Statements

Pursuant to IFRS accounting policies, the Consolidated Financial Statements have been prepared according to the historical cost principle, with the exception of certain assets and liabilities detailed below. They include the financial statements of Vivendi and its subsidiaries after eliminating the main intragroup items and transactions.

Vivendi has a December 31 year-end. Subsidiaries that do not have a December 31 year-end prepare interim financial statements, except when their year-end falls within the three months prior to December 31.

Subsidiaries acquired are included in the Consolidated Financial Statements from the acquisition date, or, for convenience reasons and if the impact is not material, the date of the most recent Consolidated Statement of Financial Position.

1.3.1 Use of estimates

The preparation of Consolidated Financial Statements in compliance with IFRS requires Group management to make certain estimates and assumptions that they consider reasonable and realistic. Despite regular reviews of these estimates and assumptions, based in particular on past achievements or anticipations, facts and circumstances may lead to changes in these estimates and assumptions which could impact the reported amount of Group assets, liabilities, equity or earnings. These estimates and assumptions notably relate to the measurement of deferred taxes (please refer to notes 1.3.10 and 6), provisions (please refer to notes 1.3.9 and 19), employee benefits (please refer to notes 1.3.9 and 20), share-based compensation (please refer notes 1.3.11 and 21) and certain financial instruments (please refer to notes 1.3.7 and 25), revenue recognition (please refer to notes 1.3.4 and 3) and the valuation of goodwill (please refer to notes 1.3.5.1 and 9), other intangible assets (please refer to notes 1.3.5.4 and 11) and property, plant and equipment (please refer to notes 1.3.5.5 and 12).

1.3.2 Principles of consolidation

A list of Vivendi's major subsidiaries, joint ventures and other associated entities is presented in Note 31 "Major consolidated entities".

Full consolidation

All companies in which Vivendi has a controlling interest, specifically those in which it has the power to govern the financial and operational policies to obtain benefit from their operations, are fully consolidated.

A controlling position is presumed to exist when Vivendi holds, directly or indirectly, a voting interest exceeding 50%, and where no other shareholder or group of shareholders exercises substantive participating rights which would enable it to veto or to block ordinary decisions taken by Vivendi.

A controlling position also exists when Vivendi, holding an interest of 50% or less in an entity, possesses (i) control over more than 50% of the voting rights by virtue of an agreement with other investors, (ii) power to govern the financial and operational policies of the entity by

virtue of a statute or contract, (iii) the right to appoint or remove from office the majority of the members of the board of directors or other governing body, or (iv) the power to assemble the majority of voting rights at meetings of the board of directors or other governing body.

Vivendi consolidates special purpose entities that it controls in substance because it has the right to obtain a majority of benefits, or because it retains the majority of residual risks inherent in the special purpose entity or its assets.

Proportionate consolidation

Companies that are controlled jointly by Vivendi or another member of the Group and a limited number of other shareholders under the terms of a contractual arrangement are proportionally consolidated.

Equity accounting

Entities over which Vivendi exercises significant influence are accounted for under the equity method.

Significant influence is presumed to exist when Vivendi holds, directly or indirectly, at least 20% of an entity's voting rights unless it can be clearly demonstrated otherwise. Significant influence can be demonstrated on the basis of other criteria, such as representation on the board of directors or the entity's equivalent governing body, participation in policy-making processes, material transactions with the entity or interchange of managerial personnel.

1.3.3 Foreign currency translation

Foreign currency transactions are initially recorded in the functional currency at the exchange rate prevailing at the transaction date. At the closing date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency exchange rate prevailing on that date. All foreign currency differences are expensed, apart from differences on borrowing in foreign currencies, which constitute a hedge for the net investment in a foreign entity. These differences are allocated directly to equity until the divestiture of the net investment.

Except in cases of significant exchange rate fluctuation, financial statements of subsidiaries, joint ventures and other associated entities for which the functional currency is not the euro, are translated into euros as follows: all asset and liability accounts are translated at the exchange rate at the end of the period; and all earnings and expense accounts and cash flow statement items are translated at average exchange rates for the period. The resulting translation gains and losses are recorded as foreign currency translation differences in equity.

In accordance with the provisions of IFRS 1 "First time adoption of International Financial Reporting Standards", Vivendi decided to reverse the accumulated foreign currency translation differences against retained earnings as of January 1, 2004. These foreign currency translation differences resulted from the translation into euro of the financial statements of subsidiaries having foreign currencies as their functional currencies. Consequently, on the subsequent divestiture of the subsidiaries, joint ventures or other associated entities, whose functional currency is not the euro, as the case may be, these adjustments are not taken to earnings.

1.3.4 Revenues from operations and associated costs

Revenues from operations are reported when it is probable that future economic benefits will be obtained by the Group and when these revenues can be reliably measured.

1.3.4.1 Universal Music Group (UMG)

Revenues from the sale of recorded music, net of a provision for estimated returns (please refer to Note 1.3.4.5 hereof) and rebates, are recognized upon shipment to third parties, at the shipping point for products sold free on board (FOB) and on delivery for products sold free on destination.

Cost of revenues includes manufacturing and distribution costs, royalty expenses, copyright expenses, artists' costs, recording costs and direct overheads. Selling, general and administrative expenses notably include marketing and advertising expenses, selling costs, provisions for doubtful receivables and indirect overheads.

1.3.4.2 Vivendi Games

Revenues from the sale of boxes for Massively Multiplayer Online Role Playing Games (MMORPG), as well as revenues from the sale of boxes for other games, are recorded upon transfer of the ownership and related risks to the distributor, net of a provision for estimated returns (please refer to Note 1.3.4.5 hereof) and rebates. Revenues generated by subscriptions and prepaid cards for online games are recorded on a straight-line basis over the duration of the service.

Cost of revenues includes manufacturing, warehousing, shipping and handling costs, royalty expenses, research and development expenses, and the amortization of capitalized software development costs.

1.3.4.3 The Canal+ Group

Pay television

Revenues from television subscription services for terrestrial, satellite or cable pay television programming are recognized over the service period. Revenues from advertising are recognized over the period during which advertising commercials are broadcast. Revenues from ancillary services (such as interactive services or video-on-demand services) are recognized over the service period. Subscriber management and acquisition costs, as well as television distribution costs, are included in cost of revenues.

Theatrical film and television programming distribution

Theatrical revenues are recognized as the films are screened. Revenues from film distribution and from video and television or pay television licensing agreements are recognized when the films and television programs are available for telecast and all other conditions of sale have been met. Home video product revenues, less a provision for estimated returns (please refer to Note 1.3.4.5 hereof) and rebates, are recognized upon shipment and availability of the product for retail sale to the ultimate customer. Amortization of film and television capitalized and acquisition costs, theatrical print costs, home video inventory costs and television and home video marketing costs are included in cost of revenues.

1.3.4.4 SFR and Maroc Telecom

Revenues from telephone subscriptions are recognized on a straight-line basis over the subscription contract period. Revenues from incoming and outgoing traffic are recognized when the service is rendered. Revenues from the sale of telecommunications equipment (mobile phone and other), as part of telephone packages, net of point-of-sale discounts and connection charges, are recognized upon activation of the line. Customer acquisition and loyalty costs for mobile phones principally consisting of rebates on the sale of equipment to customers through distributors are recognized as a deduction from revenues. Customer acquisition and loyalty costs consisting of premiums not related to the sale of equipment as part of telephone packages and commissions paid to distributors are recognized as selling and general expenses.

Sales of services provided to customers managed by SFR and Maroc Telecom on behalf of content providers (mainly toll numbers) are accounted for gross, or net of content providers' fees when the provider is responsible for the content and for setting the price to be paid by subscribers.

Cost of revenues comprises purchasing costs (including purchases of mobile phones), interconnection and access costs, and network and equipment costs. Selling, general and administrative expenses notably include commercial costs consisting of marketing and customer care expenses.

1.3.4.5 Other

Provisions for estimated returns are deducted from sales of products to customers through distributors. They are estimated based on past sales statistics and take account of the economic environment and product sales forecasts.

Selling, general and administrative expenses principally include salaries and employee benefits, rents, consulting and services fees, insurance costs, travel and entertainment expenses, administrative department costs (e.g. Finance department, General Counsel comprising legal department, etc.) and other operating expenses.

Advertising costs are expensed as incurred.

Slotting fees and cooperative advertising expenses are recorded as a reduction in revenues. However, cooperative advertising at UMG and Vivendi Games is treated as a marketing expense and expensed when the expected profit is individualized and can be estimated.

1.3.5 Assets

1.3.5.1 Goodwill and business combinations

In accordance with the provisions of IFRS 1, Vivendi decided not to restate business combinations prior to January 1, 2004.

In accordance with the provisions of IFRS 3, business combinations are recorded using the purchase method. Under this method, on the initial consolidation of an entity over which the Group has acquired exclusive control, the assets acquired and the liabilities and contingent liabilities assumed are recognized at their fair value at the acquisition date. At this date, goodwill is initially measured at cost, being the excess of the cost of the business combination over Vivendi's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. If goodwill is negative, it is recognized directly in the statement of earnings.

Subsequently, goodwill is measured at cost less accumulated impairment losses recorded. Goodwill is subject to impairment tests each year, or when events or changes in the market environment indicate a risk of impairment loss. In the event of a loss in value, an impairment loss may be recorded in losses of intangible assets acquired through business combinations.

In addition, pursuant to the provisions of IFRS 3, the following principles are applied to business combinations:

- If possible on the acquisition date, goodwill is allocated to each cash-generating unit likely to benefit from the business combination.
- In the event of acquisition of an additional interest in a subsidiary, the excess of the acquisition cost over the carrying amount of minority interests acquired is recognized as goodwill.
- Goodwill is no longer amortized.

Vivendi previously recorded goodwill as a reduction in equity in accordance with recommendations made by the AMF in 1988 that are no longer in effect. This was done, in particular, in connection with the mergers with Havas and Pathé in 1998 and 1999 and the acquisition of US Filter and an additional investment in the Canal+ Group in 1999.

1.3.5.2 Content assets

UMG

Music publishing rights and catalogs include music catalogs, artists' contracts and publishing rights acquired in December 2000 as part of the acquisition of The Seagram Company Ltd. or more recently. They are amortized over 15 years in selling, general and administrative expenses.

Royalty advances to artists, songwriters and co-publishers are capitalized as an asset when their current popularity and past performances provide a reasonable basis for concluding that the probable future recoupment of such royalty advances against earnings otherwise payable to them is reasonably assured. Royalty advances are recognized as an expense as subsequent royalties are earned by the artist, songwriter or co-publisher. Any portion of capitalized royalty advances not deemed to be recoverable against future royalties is expensed during the period in which the loss becomes evident. These expenses are recorded in cost of revenues.

Royalties earned by artists, songwriters and co-publishers are recognized as an expense in the period in which the sale of the product takes place, less a provision for estimated returns.

Vivendi Games

In the ordinary course of its business, Vivendi Games pays advances on royalties and license fees to entitled beneficiaries for the use of their intellectual property content for developing new games (e.g., software developments, graphics and editorial contents). Such royalty and license fee advances are recognized as an expense, based on contractual rates, in the period in which revenues from the sale of the games integrating the intellectual property content are recognized. Any portion of capitalized royalty and license fee advances not deemed to be recoverable from future royalties and license fees is expensed during the period in which the loss becomes evident.

The Canal+ Group

<u>Film, television or sport broadcasting rights</u>

When signing contracts for the acquisition of film, television or sport broadcasting rights, the rights acquired are recorded as off-balance sheet commitments. They are recorded in the statement of financial position, classified as content assets, as follows:

- Film and television broadcasting rights are recognized at their acquisition cost, when the screening certificate has been obtained and the programming is available for exhibition. They are expensed over their broadcasting period.
- Sport broadcasting rights are recognized at their acquisition cost, on the opening of the broadcasting period of the related sport season or upon the first payment and are expensed as they are broadcast.
- Expensing of film, television or sport broadcasting rights is included in cost of revenues.

Theatrical film and television rights produced or acquired to be sold

Theatrical film and television rights produced or acquired before their initial exhibition, to be sold, are recorded as a content asset at capitalized cost (mainly direct production and overhead costs) or at their acquisition cost. Theatrical film and television rights are amortized, and other related costs are expensed, pursuant to the estimated revenue method (i.e., based on the ratio of the current periods gross revenues to estimated total gross revenues from all sources on an individual production basis). Such revenues are estimated to be generated over a maximum 12-year period. Where appropriate, estimated losses in value are provided in full against earnings of the period, on an individual product basis, in which the losses are estimated.

Film and television rights catalogs

Catalogs are comprised of film rights acquired for a second television exhibition, or film and television rights produced or acquired that are sold after their first television exhibition (i.e., after the first broadcast on a terrestrial channel). They are recognized as an asset at their acquisition or transfer cost, and amortized as groups of films or individually, based on the estimated revenue method, respectively.

1.3.5.3 Research and development costs

Research costs are expensed when incurred. Development expenses are capitalized when the feasibility and profitability of the project can reasonably be considered certain.

Cost of software for rental, sale or commercialization

Capitalized software development costs comprise costs incurred during the internal development of products. Software development costs are capitalized when the technical feasibility of the software has been established and they are considered recoverable. These costs are mainly generated by Vivendi Games as part of games development and are amortized over 4 months starting when the product is placed on sale. Technical feasibility is determined individually for each product. Non-capitalized software development costs are immediately recorded in research and development costs.

Cost of internal use software

Direct internal and external costs incurred for the development of computer software for internal use, including web site development costs, are capitalized during the application development stage. Application development stage costs generally include software configuration, coding, installation and testing. Costs of significant upgrades and enhancements resulting in additional functionality are also capitalized. These capitalized costs mainly recognized at SFR are amortized over 4 years. Maintenance and minor upgrade and enhancement costs are expensed as incurred.

1.3.5.4 Other intangible assets

Intangible assets acquired separately are recorded at cost, and intangible assets acquired in connection with a business combination are recorded at their fair value at acquisition date. The historical cost model is applied to intangible assets subsequent to their initial recognition. Amortization is accrued for assets with a finite useful life. Useful life is reviewed at the end of each reporting period.

Music catalogs, trade names, subscribers' bases and market shares generated internally are not recognized as intangible assets.

SFR and Maroc Telecom

Licenses to operate telecom networks are recorded at historical cost or, when necessary, based upon the discounted value of deferred payments and amortized on a straight-line basis from the effective service start date over their estimated useful life until maturity. Licenses to operate in France are recognized in the amount of the fixed upfront fee paid upon the granting of the license. The variable fee which cannot reliably be determined (equal, in the case of the UMTS and GSM licenses to 1% of the revenues generated by the activity) is recorded as an expense when incurred.

Vivendi has chosen not to apply the option provided in IFRS 1 involving the remeasurement of certain intangible assets at their fair value as of January 1, 2004.

1.3.5.5 Property, plant and equipment

Property, plant and equipment are carried at historical cost less any accumulated depreciation and impairment losses. Historical cost includes the acquisition cost or production cost as well as the costs directly attributable to moving an asset to its physical location and condition necessary for its use in operations. When property, plant and equipment include significant components with different useful lives, they are recorded and amortized separately. Amortization is computed using the straight-line method based on the estimated useful life of the assets. Useful life is reviewed at the end of each reporting period.
Property, plant and equipment mainly consist of the network equipment of SFR and Maroc Telecom, each part of which is amortized using the straight-line method, generally over 4 to 20 years. The useful life of the main parts is as follow:

- Buildings: Over 8 to 20 years
- Pylons: Over 15 to 20 years
- Radio and transmission equipment: Over 8 to 10 years
- Switch centers: 8 years
- Servers and hardware: Over 4 to 8 years

Assets financed by finance lease contracts are capitalized at the lower of the fair value of future minimum lease payments and market value and the related debt is recorded in "borrowings and other financial liabilities". These assets are amortized on a straight-line basis over their estimated useful life. Depreciation expenses on assets acquired under such leases are included in depreciation expenses.

Subsequent to initial recognition, the cost model is applied to property, plant and equipment, including investment real estate.

Vivendi has elected not to apply the option provided by IFRS 1, involving the remeasurement of certain property, plant and equipment at their fair value as of January 1, 2004.

On January 1, 2004, in accordance with the provisions of IFRS 1, Vivendi decided to apply IFRIC Interpretation 4 "Determining whether an arrangement contains a lease" to commercial contracts for the supply of the Canal+ Group satellite capacity (please refer to Note 29.1 "Contractual obligations and contingent assets and liabilities – off-balance sheet commercial commitments").

1.3.5.6 Asset impairment

When events or changes in the economic environment indicate a risk of impairment of goodwill, other intangible assets, property, plant and equipment or assets in progress, an impairment test is performed to determine whether the carrying amount of the asset or group of assets under consideration exceeds its or their recoverable amount. Recoverable amount is defined as the higher of an asset's fair value (less costs to sell) and its value in use. Value in use is equal to the present value of future cash flows expected to be derived from the use and sale of the asset.

In addition, pursuant to IAS 36, asset impairment tests are subject to the following provisions:

- Irrespective of whether there is any indication of impairment, goodwill, other indefinite life intangible assets as well as assets in progress are subject to an annual impairment test. This test is performed during the fourth quarter of each year. The recoverable value of each of the Group's operating units is compared to the carrying amount of the corresponding assets (including goodwill).
- Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the group of assets.
- Value in use is determined based on cash flow projections consistent with the most recent budget and business plan approved by executive management and presented to the Management Board. The applied discount rate reflects current assessments by the market of the time value of money and the risks specific to the asset or group of assets.
- Fair value (less costs to sell) is the amount obtainable from the sale of the asset or group of assets in an arm's length transaction between knowledgeable and willing parties, less costs to sell. These values are determined based on market data (comparison with similar listed companies, value attributed in recent transactions and stock market prices) or, on discontinued future cash flows in the absence of reliable data based.
- If the recoverable amount is less than the carrying amount of an asset or group of assets, an impairment loss is recognized for the difference. In the case of a group of assets, this impairment loss is recorded first against goodwill.

- Impairment losses recognized in respect of property, plant and equipment and intangible assets (other than goodwill) may be reversed in a later period if the recoverable amount becomes greater than the carrying amount, within the limit of impairment losses previously recognized. Impairment losses recognized in respect of goodwill cannot be reversed.

1.3.5.7 Financial assets

Financial assets consist of financial assets measured at fair value and financial assets recognized at amortized cost. Financial assets are initially recognized at the fair value of the consideration given, for which the best evidence is the transaction price (including associated transaction costs, if any).

Financial assets at fair value

Financial assets at fair value include available-for-sale securities, derivative financial instruments with a positive value (please refer to Note 1.3.7 below) and other financial assets measured at fair value through profit or loss.
For financial assets actively traded in organized public markets, fair value is determined by reference to the published market price at the period end. For financial assets for which no published market price exists in an active market, fair value is estimated. As a last resort, the Group values financial assets at historical cost, less any impairment losses, when a reliable estimate of fair value cannot be made using valuation techniques in the absence of an active market.

Available-for-sale securities consist of unconsolidated interests and other securities not qualifying for classification in the other financial asset categories described below. Unrealized gains and losses on available-for-sale securities are recognized in equity until the financial asset is sold, collected or removed from the statement of financial position in another way, or until there is objective evidence that the investment is impaired, at which time the accumulated gain or loss previously reported in equity is expensed.

Other financial assets measured at fair value through profit or loss mainly consist of assets held for trading which Vivendi intends to sell in the near term (primarily marketable securities). Unrealized gains and losses on these assets are recognized in other financial charges and income.

Financial assets at amortized cost

Financial assets at amortized cost consist of **loans and receivables** (primarily loans to affiliates and associates, current account advances to equity affiliates and unconsolidated interests, cash deposits, securitized loans and receivables and other loans and receivables and debtors) and **held-to-maturity investments** (financial assets with fixed or determinable payments and fixed maturity). At the end of each period, these assets are measured at amortized cost using the effective interest method. If there is objective evidence that an impairment loss has been incurred, the amount of this loss, measured as the difference between the asset's carrying amount and its recoverable amount (equal to the present value of estimated future cash flows discounted at the financial asset's original effective interest rate) is recognized in profit or loss. Impairment losses may be reversed if the recoverable amount of the asset subsequently increases.

1.3.5.8 Inventories

Inventories are valued at the lower of cost and net realizable value. Cost comprises purchase costs, production costs and other supply and packaging costs. It is usually computed using the weighted average cost method. Net realizable value is the estimated selling price in the normal course of business, less estimated completion costs and estimated selling costs.

1.3.5.9 Cash and cash equivalents

The "cash and cash equivalents" category consists of cash in banks, euro-denominated and international monetary UCITS, which satisfy the recommendation n°2005-02 of the AMF, and other highly liquid investments with initial maturities of three months or less. Investments in securities, investments with initial maturities longer than three months without early exit possibilities and bank accounts subject to restrictions (blocked accounts), other than restrictions due to regulations specific to a country or activity sector (exchange controls, etc.) are not presented as cash equivalents but as financial assets.

1.3.6 Assets held for sale and discontinued operations

A non-current asset or a group of assets and liabilities is held for sale when its carrying amount will be recovered principally through its divestiture and not by continuing utilization. To meet this definition, the asset must be available for immediate sale and divestiture must be highly probable. These assets and liabilities are recognized as assets held for sale and liabilities associated with assets held for sale, without offset. The related assets recorded as assets held for sale are valued at the lower of fair value, net of divestiture fees, and cost less accumulated depreciation and impairment losses, and are no longer depreciated.

An operation is qualified as discontinued when it represents a separate major line of business and the criteria for classification as an asset held for sale have been met or when Vivendi has sold the asset. Discontinued operations are presented on a single line of the statement of earnings for the periods reported, comprising the earnings after tax of discontinued operations until divestiture and the gain or loss after tax on sale or fair value measurement, less costs to sell the assets and liabilities making up the discontinued operations. In addition, the cash flows generated by discontinued operations are presented on one separate line of the statement of consolidated cash flows for the periods presented.

1.3.7 Financial liabilities

Long and short-term borrowings and other financial liabilities include:

- Notes and facilities, as well as miscellaneous other borrowings (including treasury bills and debt related to finance leases) and related accrued interest;
- Obligations arising in respect of commitments to purchase minority interests;
- The negative value of other derivative financial instruments. Derivatives with positive fair values are recorded as financial assets in the statement of financial position.

Borrowings

All borrowings are initially accounted for at the fair value of the consideration received, for which the best evidence is the transaction price, net of transaction costs directly attributable to the borrowing. Borrowings bearing interest are subsequently valued at amortized cost, applying the effective interest method. The effective interest rate is the internal yield rate that exactly discounts future cash flows through the term of the borrowing. In addition, where the borrowing comprises an embedded derivative (e.g., an exchangeable bond) or an equity instrument (e.g., a convertible bond), the amortized cost is calculated for the debt component only, after separation of the embedded derivative or equity instrument (please refer to Note 1.3.8 on compound financial instruments). In the event of a change in expected future cash flows (e.g., early redemption not initially expected), the amortized cost is adjusted against earnings in order to reflect the value of the new expected cash flows, discounted at the initial effective interest rate.

Commitments to purchase minority interests

Vivendi has granted commitments to purchase minority interests to certain shareholders of its fully consolidated subsidiaries. These purchase commitments may be optional (e.g., put option) or firm (e.g., forward purchase contracts). Pending an IFRIC interpretation or a specific IFRS, the following accounting treatment has been adopted provisionally in accordance with prevailing IFRS:

- On initial recognition, the commitment to purchase minority interests is recognized as a financial liability for the present value of the purchase consideration under the put option or forward purchase contract, mainly offset through minority interests and the balance through goodwill;
- Subsequent changes in the value of the commitment are recognized as a financial liability by an adjustment to goodwill;
- Where applicable, at the time of initial recognition or the recognition of subsequent changes, any expected loss on purchase is recognized in other financial charges and income; and
- On maturity of the commitment, if the minority interests are not purchased, the entries previously recognized are reversed; if the minority interests are purchased, the amount recognized in financial liabilities is reversed, offset by the cash outflow relating to the purchase of the minority interests.

Derivative financial instruments

Vivendi uses derivative financial instruments to manage and reduce its exposure to fluctuations in interest rates, foreign currency exchange rates and stock prices. All instruments are either listed on organized markets or traded over the counter with highly-rated counterparties. These instruments include interest rate and currency swaps and forward exchange contracts. They also include stock options used to hedge debt where principal repayment terms are based on the value of Vivendi or other stock, as well as Vivendi stock purchase option plans granted to executives and employees. All derivative financial instruments are used for hedging purposes.

When these contracts qualify as hedges for accounting purposes, the gains and losses arising on these contracts are offset in earnings against the gains and losses relating to the hedged item. When the derivative financial instrument hedges exposures to fluctuations in the fair value of an asset or a liability recognized in the statement of financial position or off-balance sheet, it is a fair value hedge. The instrument is remeasured at fair value through earnings, with the gains or losses arising on remeasurement of the hedged portion of the hedged item offset on the same line of the income statement. When the derivative financial instrument hedges cash flows, it is a cash flow

hedge. The hedging instrument is remeasured at fair value and the portion of the gain or loss that is determined to be an effective hedge is recognized through equity, whereas its ineffective portion is recognized through earnings. When the hedged item is realized, accumulated gains and losses recognized in equity are released to the income statement and recorded on the same line as the hedged item. When the derivative financial instrument hedges fluctuation of a net investment in a foreign operation, it is recognized as a cash flow hedge. Derivative financial instruments which do not qualify as hedges for accounting purposes are remeasured at fair value and resulting gains and losses are recognized directly in earnings.

Furthermore, income and expenses relating to foreign currency instruments used to hedge highly probable budget exposures and firm commitments, contracted pursuant to the acquisition of editorial content rights (sports, audiovisual, film rights, etc.) are recognized in EBIT. In all other cases, gains and losses arising on the fair value remeasurement of instruments are recognized in financial income and expenses.

1.3.8 Compound financial instruments

Certain financial instruments comprise a liability component and an equity component. This is notably the case with the notes mandatorily redeemable for new shares of Vivendi issued in November 2002.

The various components of these instruments are accounted for in equity and borrowings and other financial liabilities according to their classification, as defined in IAS 32 "Financial Instruments: Disclosure and Presentation".

The component classified as borrowings and other financial liabilities is valued at issuance at the present value (taking into account the credit risk at issuance date) of the future cash flows (including interest and repayment of the nominal value) of an instrument with the same characteristics (maturity and cash flows) but without any option for conversion or redemption in shares.

The component classified as equity is defined as the difference between the fair value of the instrument and the fair value of the financial liability component.

1.3.9 Other liabilities

Provisions

Provisions are recognized when at the end of the reporting period, Vivendi has a legal obligation (legal, regulatory or contractual) or a constructive obligation, as a result of past events, and it is probable that an outflow of resources (for no consideration) will be required to settle the obligation, and the obligation can be reliably estimated. Where the effect of the time value of money is material, provisions are determined by discounting expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money. If no reliable estimate can be made of the amount of the obligation, no provision is recorded and a disclosure is made in the Notes to the Consolidated Financial Statements.

Employee benefit plans

In accordance with the laws and practices of each country in which it operates, Vivendi participates in, or maintains, employee benefit plans providing retirement pensions, post-retirement health care, life insurance and post-employment benefits, principally severance, to eligible employees, retirees and their beneficiaries. Retirement pensions are provided for substantially all employees through defined contribution plans, which are integrated with local social security and multi-employer plans, or defined benefit plans which are generally managed via Group pension plans. Vivendi's funding policy is consistent with applicable government funding requirements and regulations of each country in which the group maintains a pension plan. Defined benefit plans may be funded with investments in various instruments such as insurance contracts and equity and debt investment securities, but not holdings in Vivendi shares or debt instruments. Contributions to defined contribution and multi-employer plans are expensed during the year.

For defined benefit plans, pension expenses are determined by independent actuaries using the projected unit credit method. This method is based on assumptions updated annually, which include the probability of employees remaining with Vivendi until retirement, expected changes in future compensation and an appropriate discount rate for each country in which Vivendi maintain a pension plan. The assumptions adopted in 2005 and 2006, and the means of determining these assumptions, are presented in Note 20 "Employee benefits". In this way, the Group recognizes pension-related assets and liabilities and the related net expense over the estimated term of service of Vivendi's employees.

Furthermore, Vivendi applies the following rules:

- Balance sheet liabilities represent the difference between the actuarial value of the related benefits and the fair value of any associated plan assets, net of prior services costs and unrecognized actuarial gains and losses which remain off-balance sheet in accordance with the "corridor method".

- Actuarial gains and losses are recognized through profit and loss for the year using the "corridor method": actuarial gains and losses in excess of 10% of the greater of the obligation and the fair value of plan assets are divided by the average remaining service period of active employees.

Where financial assets exceed recognized obligations, a financial asset is recognized up to the maximum cumulative amount of net actuarial losses, unrecognized past service costs and the present value of future redemptions and the expected decrease in future contributions.

Some other post-employment benefits, such as life insurance and medical coverage (mainly in the US) are subject to provisions which are assessed through an actuarial computation comparable to the method used for pension provisions.

On January 1, 2004, in accordance with the provisions of IFRS 1, Vivendi decided to record unrecognized actuarial gains and losses against consolidated equity.

1.3.10 Deferred taxes

Differences existing at the closing date between the tax base value of assets and liabilities and their carrying amount in the consolidated statement of financial position give rise to temporary differences. Pursuant to the liability method, these temporary differences result in the accounting of:

- deferred tax assets, when the tax base value is greater than the carrying amount (expected future tax saving); and
- deferred tax liabilities, when the tax base value is lower than the carrying amount (expected future tax expense)

Deferred tax assets and liabilities are measured at the expected tax rates for the year during which the asset will be realized or the liability settled, based on tax rates (and tax regulations) enacted or substantially enacted by the closing date. They are reviewed at the end of each year, in line with any changes in applicable tax rates.

Deferred tax assets are recognized for all deductible temporary differences, tax losses carry-forward and unused tax credits, insofar as it is probable that a taxable profit will be available, or when a current tax liability exists, to make use of those deductible temporary differences, tax loss carry-forwards and unused tax credits, except where the deferred tax asset associated with the deductible temporary difference is generated by initial recognition of an asset or liability in a transaction which is not a business combination, and that, at the transaction date, does not impact neither earnings, nor tax income or loss.

For deductible temporary differences arising from investments in subsidiaries, joint ventures and other associated entities, deferred tax assets are recorded to the extent that it is probable that the temporary difference will reverse in the foreseeable future, and that taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred tax assets is reviewed at each closing date, and revalued or reduced to the extent that it is more or less probable that a taxable profit will be available to allow the deferred tax asset to be utilized. When assessing the probability of a taxable profit being available, account is notably taken of prior year results, forecast future results, non-recurring items unlikely to occur in the future and the tax strategy. As such, the assessment of the Group's ability to utilize tax losses carried forward is to a large extent judgment-based. If the future taxable results of the Group prove significantly different to those expected, the Group will be obliged to increase or decrease the carrying amount of deferred tax assets, with a potentially material impact on the statement of financial position and statement of earnings of the Group.

Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability results from impairment of goodwill losses not deductible for tax purposes, or initial recognition of an asset or liability in a transaction which is not a business combination, and that, at the transaction date, does not impact neither earnings, nor tax income or loss.

For taxable temporary differences arising from investments in subsidiaries, joint ventures and other associated entities, deferred tax liabilities are recorded except to the extent that both of the following conditions are satisfied: the parent, investor or venturer is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

Current tax and deferred tax shall be charged or credited directly to equity, and not earnings, if the tax relates to items that are credited or charged directly to equity.

1.3.11 Share-based compensation

With the aim of aligning the interest of executive management and employees with shareholders' interest by providing an additional incentive to improve company performance and increase the share price on a long-term basis, Vivendi maintains several share-based compensation plans (Group savings plan and restricted stocks) or other equity instruments based on the value of the Vivendi share price (stock purchase plans – until first semester 2002 – and stock option plans), which are settled either in equity instruments or cash. These instruments become exercisable according to customary vesting periods (three years in the case of stock options and two years in the case of restricted stock units) and may only be exercised by management and employees who are active employees of the Group, with certain exceptions.

The cost of share-based compensation payments is allocated to each business unit in accordance with the number of share-based instruments (stock options, or, in the case of Group savings plans, subscriptions), granted to their respective management and employees.

Stock Option and Restricted Stock plans granted

In accordance with IFRS 2, share-based compensation is recognized as a personnel cost at the fair value of the equity instruments granted. Vivendi uses a binomial model to assess the fair value of such equity instruments. However, depending on whether the equity instruments granted are equity-settled through the issuance of Vivendi shares or cash-settled, the accounting treatment differs:

- If the equity instrument is settled through the issuance of Vivendi shares, the fair value of the equity instruments granted is estimated and fixed at the grant date and recorded over the vesting period based on the characteristics of the equity instruments. In addition, the expense is recorded against equity.
- If the equity instrument is settled in cash, the fair value of the equity instruments granted is estimated as of the grant date and is re-estimated at each reporting date and the expense is adjusted pro rata taking account the vested rights at the relevant reporting date. The expense is amortized over the vesting period based on the characteristics of the equity instruments. The expense is recorded as a non current provision.

The dilutive effect of stock options and restricted stocks settled through the issuance of Vivendi shares granted to management and employees which are in the process of vesting, is reflected in the calculation of diluted earnings per share.

In accordance with the transitional provisions of IFRS 1 with respect to IFRS 2, the Group elected for retrospective application of IFRS 2 as of January 1, 2004. Consequently, all share-based payment transactions for which rights remained to be vested as of January 1, 2004 are now recognized.

Stock purchase plans

Vivendi also maintains employee stock purchase plans (group savings plans) that allow substantially all of its full-time employees and retirees to purchase Vivendi shares through capital increases reserved to them. Shares purchased by employees under these plans are subject to certain restrictions relating to their sale or transfer. The related expenses are recorded as a personnel cost against equity at the subscription date and represent the difference between the subscription price of the shares (with a maximum 20% discount under French Law) and the share price on the date of grant.

1.4. Contractual obligations and contingent assets and liabilities

Once a year, Vivendi and its subsidiaries prepare detailed records on all contractual obligations, commercial and financial commitments and contingent obligations, for which it is jointly and severally liable. These detailed records are updated by the relevant departments and reviewed by senior management on a regular basis. In order to ensure completeness, accuracy and consistency of these records, some dedicated internal control procedures are performed, including (but not limited to):

- the review of the minutes of shareholders' meetings, meetings of the Management Board and of the Supervisory Board and meetings of the Supervisory Board committees, for matters such as contracts, litigation, and authorization of asset acquisitions or divestitures;
- the review with banks and financial institutions of pledges and guarantees;
- the review with internal and/or external legal counsels of pending litigation, claims (in dispute) and environmental matters as well as related assessments for unrecorded contingencies;
- the review of tax examiner's reports, and as the case may be, notices of assessments and tax expense analyses for prior years;

- the review with the risk management department and insurance agents and brokers with which the Group contracted, of insurance coverage for unrecorded contingencies;
- the review of related party transactions for guarantees and other given or received commitments; and
- more generally, the review of the main contracts and agreements.

1.5. New IFRS

IFRS 7 "Financial instruments: disclosures" and Amendment to IAS 1 "Presentation of financial statements: capital disclosures"

On August 18, 2005, the IASB issued IFRS 7 "Financial instruments: disclosures" and an amendment to IAS 1 "Presentation of financial statements: capital disclosures".

The objective of IFRS 7 is to bring together all disclosures relating to financial instruments in a new standard, after having redefined those disclosures currently required by IAS 32 - Financial instruments: disclosure and presentation, and IAS 39 - Financial instruments: recognition and measurement. Amendment to IAS 1 adds requirements for qualitative disclosures on the objectives, policies and processes of operations impacting capital and for quantitative data on what elements compose capital. IFRS 7 and Amendment to IAS 1, adopted by the EU on January 11, 2006 and published in the Official Journal of the European Union on January 27, 2006, shall apply to financial reporting periods from January 1, 2007.

Vivendi has decided not to apply IFRS 7 and the Amendment to IAS 1 to financial reporting periods prior to January 1, 2007 and do not anticipate its application after such date to have any material effect to the Notes to the Consolidated Financial Statements.

Accounting standards and interpretations that have been published but are not yet effective

The IFRS / IFRIC accounting standards and interpretations that have been issued by the IASB / IFRIC and that are not yet effective, but which have been applied in anticipation are detailed in the Note 1.1. Compliance with accounting standards.

Among other IFRS / IFRIC accounting standards and interpretations issued by the IASB / IFRIC at the date of approval of these consolidated financial statements but that are not yet effective and for which Vivendi has not elected an earlier application, the main ones which may affect Vivendi are as follows :

- IFRS 8 standard - Operating Segments, for segment data, shall apply to periods beginning on or after January 1, 2009 ; and
- IFRIC 12 interpretation – Service Concession Arrangements, applies to public-to-private service concession arrangements and shall apply to periods beginning on or after January 1, 2008.

Vivendi is currently assessing the potential impacts that application of these standards and interpretations will have on the statement of earnings, the statement of financial position, net cash flows and notes to the financial statements.

Note 2. Changes in the Scope of Consolidation for the years ended December 31, 2006, 2005

2.1. Combination of the Canal+ France and TPS pay-TV activities in France

On January 6, 2006, Vivendi, TF1 and M6 entered into an agreement (the "TF1-M6 Agreement") setting forth the terms and conditions of the proposed merger of (i) Télévision Par Satellite SNC (TPS) and its direct and indirect subsidiaries and (ii) the pay-TV publishing and service distribution activities of Groupe Canal+ in France (including overseas departments and territories) and other Francophone countries, into Canal+ France. TF1 and M6 would own an aggregate of 15% (9.9% and 5.1%, respectively) of Canal+ France which would be under the exclusive control of Vivendi. The TF1-M6 Agreement stipulated that the merger transactions would be achieved on a cash-free, debt-free basis with a zero "net cash position" (contractual aggregate determined on August 31, 2006).

On March 14, 2006, Lagardère, Vivendi and Groupe Canal+ entered into an investment agreement (the "Lagardère Agreement") mainly providing for the acquisition of TPS by Vivendi and Groupe Canal+. Under the terms of this agreement, Lagardère Active undertook, subject to certain conditions precedent, to acquire a 20% interest in Canal+ France by (i) transferring its 34% ownership interest in CanalSatellite

(without dilution of the shareholdings of TF1 and M6) and (ii) acquiring Canal+ France shares from Groupe Canal+ for €525 million in cash, less 34% of CanalSatellite's "net cash position" and 16.7% of the net available cash of GIE Numérique, plus 20% of the "net cash position" of Canal+ France.

The scope of Canal+ France's assets principally includes 100% ownership of CanalSatellite, Canal+ Distribution, MultiThématiques, Media Overseas, GIE Numérique and TPS, and 49% ownership of Canal+ S.A. The assets of Groupe Canal+ held outside Canal+ France are StudioCanal, Cyfra+, Canal+ Régie and i>Télé.

On August 30, 2006, the merger was authorized, pursuant to the merger control regulations, by a decision of the French Minister of the Economy, Finance and Industry, subject to Vivendi and Groupe Canal+ complying with certain undertakings. Without calling into question the pay-TV economic model, or the industrial logic behind the transaction and the benefits to the consumer, these commitments satisfy, more specifically, the following objectives:

- facilitate the access of television and video-on-demand (VOD) operators to rights on attractive audiovisual content and in particular French and US films and sporting events. To this end, the Canal+ Group undertakes, notably, to restrict the term of future framework agreements with major US studios to a maximum of three years, not to seek exclusive VOD rights, to guarantee non-discriminatory access to the StudioCanal catalogue, to restrict the proportion of films taken from this catalogue in the acquisition of films by the future entity and to cease soliciting combined offers for different categories of cinematographic and sporting rights.

  In addition, the Canal+ Group undertakes to retrocede, within the framework of competition requirements, free-to-air audiovisuals rights to TV series and sporting events that the new entity may hold and does not use.
- make available to all pay-TV distributors who so wish several high-quality channels, enabling them to develop attractive products. Third parties will be provided with access to TPS Star, three cinema channels (CinéStar, CinéCulte, CinéToile), Sport+ and the children's channels Piwi and Teletoon. In addition, Canal+ will be available in digital (self distribution) to all operators wishing to include this channel in their product range.
- enable French-language independent licensed channels to be included in the satellite offerings of the new group. The current proportion of theme channels in the Group's offerings that are neither controlled by the Canal+ Group or one of the minority shareholders in the new entity (Lagardère, TF1, M6), will be retained at the current level as a minimum, including in the basic offering. This guarantee applies in terms of both the number of channels and revenue.

These commitments are given by Vivendi and the Canal+ Group for a maximum period of six years, with the exception of those commitments concerning the availability of channels and VOD, that cannot exceed five years.

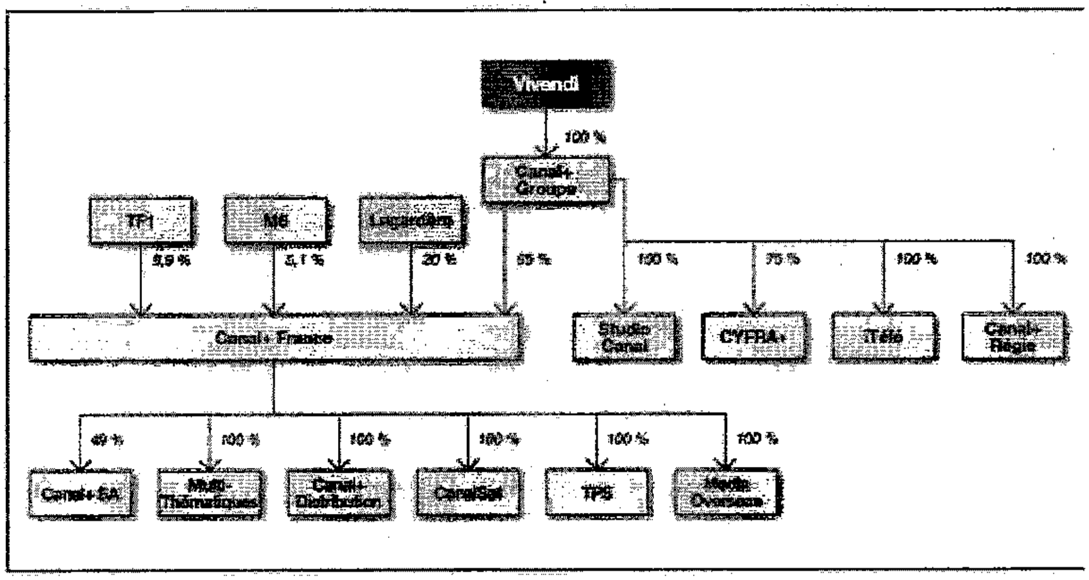
Below is a description of the preliminary transactions to the merger that took place in 2006 with their impact on the Consolidated Financial Statements as of December 31, 2006:

- On January 6, 2006, Vivendi paid a €150 million advance to TF1 and M6 recognized as a short-term financial asset. This advance was repaid as well as corresponding interests on January 4, 2007.
- On November 30, 2006, Groupe Canal+ transferred to Canal+ France all of its assets and activities of pay-TV publishing and distribution in France (including overseas departments and territories) and other Francophone countries (with the exception principally of Media Overseas which had been previously sold to Canal+ France). The recapitalizations provided for in the TF1-M6 Agreement to reduce the "net cash position" of TPS and Canal+ France to zero were also carried out on this date by TF1 and M6, on the one hand, and by Groupe Canal+ on the other.
- On December 19, 2006, Groupe Canal+ transferred 9.82% of the share capital of Canal+ France (which, at such date, excluded TPS and included 66% of CanalSatellite) to Lagardère Active for a total consideration of €469 million, subject to the satisfaction by January 15, 2007 of certain conditions precedent, including the completion of the contribution to Canal+ France of 100% of TPS by TF1 and M6 and of 34% of CanalSatellite by Lagardère. Pursuant to the Lagardère Agreement, the amount paid corresponded to the price of €525 million on a cash-free-debt-free basis, less 34% of the "net cash position" of CanalSatellite and less 16.7% of the available net cash of GIE Numérique, plus 20% of the "net cash position" of Canal+ France. In 2006, this disposal generated a gain of €128 million. In order to guarantee repayment of this sum by Groupe Canal+ to Lagardère if conditions precedent were not satisfied, a stand-alone, first-demand bank guarantee was set up by a financial institution in favor of Lagardère Active at the request of Vivendi. As part of the arrangements for setting up this guarantee, Vivendi delivered a cash deposit for the same amount and duration to guarantee Vivendi's obligation to repay the financial institution the amount it would pay Lagardère Active in the event that the first-demand guarantee were to be called. The guarantee and the cash deposit were terminated on January 4, 2007. As of December 31, 2006, the cash deposit is recognized as short-term financial assets and booked as a reduction of Financial Net Debt, considering its maturity date of January 4, 2007.

The merger was completed on January 4, 2007 as follows:

- TF1 and M6 transferred to Canal+ France 100% of the share capital of TPS Gestion, a company which wholly-owns TPS. These contributions of assets were valued at €900 million and were paid for in Canal+ France shares. Upon completion of these asset transfers, TF1 and M6 held a 9.9% and 5.1% interest in Canal+ France, respectively.
- Lagardère Active transferred to Canal+ France its 24% equity interest in CanalSatellite and 100% of its equity interest in Lagardère Television Holdings SA, which owns 10% of CanalSatellite's share capital. These contributions of assets were valued at €891 million and were paid for in Canal+ France shares. Upon completion of these asset transfers and considering the Canal+ France shares acquired on December 19, 2006, Lagardère Active held a 20% interest in the share capital of Canal+ France.
- TPS was included in the scope of consolidation of Canal+ France (fully consolidated) on January 4, 2007, on which date Vivendi became in a position to exercise its shareholders' rights that gave it the exclusive control of TPS.

Following these transactions, the organizational chart of the new group is as follows:



Effect of the Canal+ and TPS combination in Consolidated Financial Statements as of March 31, 2007:

- Acquisition of 85% of TPS from TF1 and M6, in exchange for 15% of Canal+ France (including the additional investment in CanalSatellite, purchased at the same time from Lagardère, please see below). The cost of this business combination cost will be determined based on the fair value of the TPS shares contributed by TF1 and M6 (€900 million for 100% of TPS), plus the costs directly attributable to the acquisition. In accordance with the accounting standards applicable to business combinations, Canal+ France is currently performing an initial purchase price allocation, in order to determine the fair values, of identifiable assets acquired and liabilities incurred or assumed, based on analyses and expert appraisals performed by Canal+ France. The definitive allocation, to be finalized within the 12-month period prescribed by accounting standards, may differ significantly from the initial allocation. At this stage, the following acquired assets, assumed liabilities and contingent liabilities have been identified:
  - o certain intangible assets identified: market share and TPS trade name. The fair value of such intangible assets will be determined using the "Income Approach" method based on the present value of the estimated future cash flows.
    - The fair value of the market share will be estimated using the "Income Approach", on the basis of the discounted value of expected revenues attributable to existing customers at the acquisition date. The present value of the estimated future cash flows will be calculated using a discount rate of return that considers the relative risk of achieving these cash-flows and the time value of money. This discount rate should be equal to the rate used by Vivendi for the purpose of evaluating other similar businesses. This asset is considered to be an intangible asset with a finite useful life and as such should be amortized over 3 to 5 years, based on the churn rate used for valuation purposes.
    - The TPS trade name will be valued based on the relief from royalty method, which involves assessing the royalties that would have been paid to third parties for the use of the trade name if Vivendi had not owned it. The present value of the estimated future cash flows will be calculated using a discount rate of return equal

to the rate used by Vivendi for the purpose of evaluating other similar businesses of Group Canal+. This asset will be considered to be an intangible asset with an indefinite useful life and as such should not be amortized.

- liabilities incurred primarily as a result of this business combination and mainly relating to "broadcasting rights" as well as the fair value of certain liabilities and long-term commitments.
- deferred taxes that are generated by the assigned values and tax basis of the assets and liabilities recognized in the purchase accounting for this business combination, which also takes into account the tax benefit (deferred tax asset) arising from TPS's tax losses and some temporary differences that were not recognized by the acquiree before the business combination, qualifies for recognition as an identifiable asset.
- the excess of the purchase price over Canal+ France's interest in the net fair value of the identifiable assets, liabilities, and contingent liabilities recognized in the preliminary purchase price allocation will be recognized as goodwill as of the acquisition date. Considering the preliminary allocation described above and as part of the process of finalizing the purchase price allocation during the 12-month period allowed under IFRS3, goodwill is estimated at approximately €1 billion for the purchase of an 85% interest in TPS.

– the acquisition by Canal+ France from Lagardère of 80% of its 34% interest in CanalSat, in exchange for 10.18% of Canal+ France and 20% of TPS, that should generate a dilution gain estimated at €239 million.

Commitments granted by Vivendi and Groupe Canal+ to TF1, M6 and Lagardère

– TF1's and M6's Put Options

Each TF1 and M6 were granted by Vivendi a put option on their shares in Canal+ France. This option is exercisable in February 2010 at fair market value, to be determined by an expert, with a floor of €1,130 million for 15% of Canal+ France (corresponding to a valuation of €7.5 billion for 100% of Canal+ France).

– Lagardère's Call Option

Pursuant to the Lagardère Agreement, Lagardère was granted a call option by Groupe Canal+ pursuant to which Lagardère may increase to 34% the level of its equity interest in Canal+ France. The option is exercisable in October 2009 at fair market value, to be determined by an expert (which exercise price will be the same as the exercise price of the put options held by TF1 and M6 if one and/or the other is exercised) with a floor of €1,050 million for 14% of Canal+ France (corresponding to a valuation of €7.5 billion for 100% of Canal+ France). If Lagardère decides to exercise such call option, the transaction would take place following the exercise (or failing that, the lapse) of the put options held by TF1 and M6.

Finally, Vivendi holds shareholders' rights which provide exclusive control on Canal+ France. In return, Vivendi granted to the minority shareholders some protective rights on their investment.

– Shareholders' Agreement between Vivendi, TF1 and M6, dated as of January 4,2007,

Pursuant to Shareholders' Agreement mentioned above, TF1 and M6 were granted a tag-along right in the event of the transfer of the exclusive control of Canal+ France by Vivendi/Groupe Canal+, together with a priority right to sell their stakes on the market in the event of a public offering of Canal+ France's shares. TF1 and M6 are not represented on the supervisory board of Canal+ France and do not have rights of any kind in respect of the management of Canal+ France. Vivendi has a pre-emptive right over all the shares owned by TF1 and M6.

– Strategic Agreements between Vivendi, Groupe Canal+, Lagardère and Lagardère Active

The Canalsatellite agreement entered into between Lagardère and Groupe Canal + in 2000 terminated on January 4, 2007.
Pursuant to the Canal+ France strategic agreements entered into on January 4, 2007, Lagardère was granted rights to preserve its economic interest in Canal+ France, which rights vary according to the level of its ownership in Canal+ France. Under no circumstances will Lagardère have any joint control of Canal+ France, including in the event that Lagardère were to exercise its call option. The main provisions of these strategic agreements are as follows:

- The Chairman and all members of the management board of Canal+ France will be appointed by Groupe Canal+. Lagardère will be represented by two out of the eleven members of the supervisory board. This number will be increased to three in the event of an increase to a level of 34% of Lagardère's ownership in Canal+ France.
- Lagardère has certain veto rights over Canal+ France and, in certain cases, over its major subsidiaries (including in the event of a change in the statutes, a major and lasting change in the business, its transformation into a company in

which the partners have unlimited liability, a single investment of over a third of revenues, a public offering of the company's shares, in certain circumstances the entry of a third party as a shareholder, and, so long as Lagardère owns 34% of Canal+ France's capital, borrowings over the thresholds of 50% and 90% of revenues as a function of the margin of earnings from operations (EFO2), and certain other rights (including a tag-along right, an anti-dilution right, certain bidding rights in the event of the sale of Canal+ France) intended to protect its economic interest. Vivendi has a pre-emptive right in the event of a sale of Lagardère's equity interest.

- Between 2008 and 2014, Lagardère will have a liquidity right exercisable between March 15th and April 15th of each calendar year, provided, however, that Lagardère owns at least 10% but no more than 20% of the capital and voting rights of Canal+ France, and provided further that it has waived its right to exercise its call option (if such option has not lapsed) enabling it to own 34% of the capital of Canal+ France. Pursuant to this liquidity right, Lagardère will be able to request the public offering of Canal+ France shares. In this event Vivendi/Groupe Canal+ has the right to acquire all of Lagardère's equity interest.
- The financing of Canal+ France has been structured through a mechanism which includes shareholders' loans and the delivery of guarantees with respect to Canal+ France's obligations. Pursuant to this mechanism, Lagardère has the option to participate in such financing and guarantee arrangements pro rata its level of ownership in the share capital of the company. With effect from 2011, after the reimbursement of the shareholder loans to which Lagardère has not contributed in proportion of its equity interest, and subject to compliance with certain indebtedness ratios, Canal+ France will distribute a dividend equal to its available cash flow not necessary for the financing of its operations provided that Lagardère owns at least 34% of the share capital of Canal+ France.

- In addition, Vivendi granted counter guarantees with regards to TF1 and M6's commitments.

Vivendi has undertaken to assume the commitments and guarantees made by TF1 and M6 in connection with TPS's liabilities, upon completion of the merger. This commitment took the form of a counter guarantee which was given by Vivendi on January 4, 2007 in favor of TF1 and M6. Vivendi has also guaranteed TF1's commitments and guarantees in connection with an output arrangement between TF1 and The Weinstein Company, Such arrangement was transferred to TPS on January 4, 2007. These counter guarantees, which represent an amount of €300 million, are intended to remain in place so long as TPS' obligations guaranteed by TF1 and M6 remain outstanding

2.2. Purchase of the 7.7% stake held by Matsushita Electric Industrial Co, Ltd (MEI) in Universal Studios Holding on February 7, 2006

On February 7, 2006, Vivendi finalized the acquisition of the approximate 7.7% minority interest which Matsushita Electric Industrial (MEI) held in Vivendi's subsidiary, Universal Studios Holding I Corp. (USHI) for a purchase price of $1,154 million. USHI was a holding company located in the US, 92.3% owned by Vivendi and its assets consisted of Vivendi's main investments in the US (excluding Vivendi Games): 100% of Universal Music Group (UMG), and 20% of NBC Universal (NBCU). USHI was liquidated in 2006. Due to this transaction, Vivendi increased its control and interest in UMG from 92.3% to 100% and its interest in NBCU from 18.5% to 20%.

The excess of the acquisition cost (€964 million) over the carrying amount of minority interests acquired (€832 million) was recognized as goodwill for €67 million, allocated to UMG and as investment in equity affiliate NBC Universal for €65 million.

2.3. Increase in SFR's stake in Neuf Cegetel

In 2006, pursuant to the exercise of its pre-emptive rights, SFR increased its stake in Neuf Cegetel from 28.2 % to 40.5% for a total investment amounting to € 626 million. Neuf Cegetel shares have been listed on the Eurolist of Euronext Paris SA since October 24, 2006. The total investment for the period was made as follows:

- In May 2006, SFR increased its stake in Neuf Cegetel from 28.2% to 34.9% for a purchase price of €276 million.
- In September 2006, SFR further increased its stake in Neuf Cegetel from 34.9% to 40.5% for a purchase price of €238 million.
- Prior to the Neuf Cegetel IPO, SFR purchased approximately 5 million of Neuf Cegetel shares from the Louis Dreyfus Group by means of an over-the-counter transaction at the IPO share price, representing a total purchase price of €112 million. This enabled SFR to maintain its percentage ownership interest in Neuf Cegetel after completion of Neuf Cegetel share capital increases as part of the IPO.

· EFO (Earnings From Operations as defined and used by Vivendi until June 30, 2006, please refer to section 1.2.3 "Change in presentation") consists of gross margin, selling, general and administrative expenses, costs related to employee benefit plan excluding the change in financial component, costs related to share base payments, restructuring costs, the change in currency hedging instruments related to operating activities and gain and loss on the divestments of property, plant and equipment and intangible assets.

- Following these transactions, SFR became the predominant shareholder with a 40.5% ownership interest with four members out of the ten board members. Louis Dreyfus Group holds a 29.6% ownership and is represented by three out of the ten board members.
- In addition, effective as of the date of the IPO, SFR and the Louis Dreyfus Group entered into a new shareholders' agreement. This agreement did not affect the governance of Neuf Cegetel which is consolidated by SFR using the equity method. Please refer to Note 29.5 "Shareholder agreements".

2.4. Stake in PTC

2.4.1 Situation at the end of 2006

The legal uncertainty surrounding the ownership of Telco's stake in Polska Telefonica Cyfrowa (PTC) a Polish mobile telecom company, due to the legal disputes involving Elektrim Telekomunikacja (Telco), Vivendi, Deutsche Telekom (DT) and Elektrim SA (Elektrim), prevents Telco from exercising joint control over PTC, as provided in the bylaws of PTC. As a result of this situation, Vivendi has not consolidated its stake in PTC.

In addition, the courts have rendered several decisions that were unfavorable to Telco (notably the decision of the Warsaw Court of Appeal on March 29, 2006, followed by another decision of the Warsaw Court of Appeal on June 21, 2006 which cancelled the registration of Telco as a PTC shareholder on the Trade and Companies Registry, and the decision on July 13, 2006 of the Trade and Companies Registry to re-instate Elektrim as a PTC shareholder). As a result, Vivendi has recognized a loss of €496 million on the PTC shares. Vivendi purchased its stake in Telco/PTC between 1999 and 2005 (see Note 2.4.2 below) for an aggregated amount of €2,011 million (in share capital subscriptions and advances, including capitalized interests). Please refer to Note 15.1 "Changes in available-for-sale securities".

Recently, several courts have rendered decisions that were favorable to Telco. In particular, on December 18, 2006, the Austrian Supreme Court rejected the request for annulment of the arbitration award rendered in Vienna on November 26, 2004, on the basis that Telco was not a party to that arbitration and that this arbitration award could not affect Telco's rights with respect to the PTC shares. On January 18, 2007, the Polish Supreme Court overturned the decision of the Warsaw Court of Appeal of March 29, 2006 and ordered that the case be reheard by the court of first instance. Consequently, Vivendi and Telco appealed for the registration of Telco as a shareholder of PTC.

Moreover, Vivendi continues legal proceedings, particularly for compensatory damages, the outcome of which remains uncertain. Please refer to Note 30 "Litigations" of the notes the Consolidated Financial Statements for the year ended December 31, 2006 for a description of the main legal proceedings involving Telco, Vivendi, DT and Elektrim, especially regarding Telco's ownership stake in PTC, updated on February 27, 2007, the date of the Management Board meeting which approved the financial statements for the year ended December 31, 2006.

2.4.2 Events occurring prior to 2006

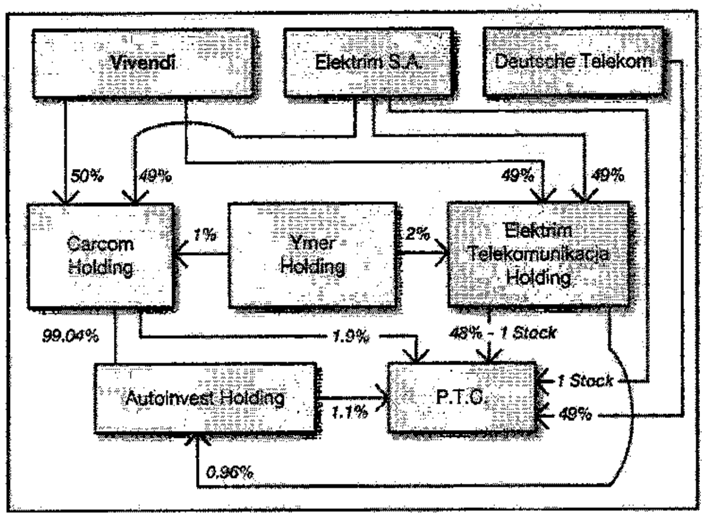
Initial investment in Telco/PTC between 1999 and 2001

In December 1999, Vivendi purchased a 49% stake in the share capital of Telco, alongside Elektrim which held the remaining 51% interest until September 3, 2001. On September 3, 2001, Vivendi and Elektrim entered into an agreement concerning the shareholding structure and corporate governance of Telco. On that same date, Ymer Finance (Ymer), a company incorporated under Luxembourg law, acquired a 2% stake in Telco from Elektrim. In parallel, Vivendi acquired non-voting shares in LBI Fund, an investment company operating as a mutual fund, which provided Ymer with the financing necessary to purchase its stake in Telco. Via the mechanism used to determine the net asset value of its shares in the LBI Fund, Vivendi bore the economic risk associated with the assets held by Ymer. Vivendi had no obligation to purchase the Telco shares held by Ymer and the latter was neither entitled nor obligated to sell them to Vivendi. The Telco bylaws grant preemptive rights to Vivendi.

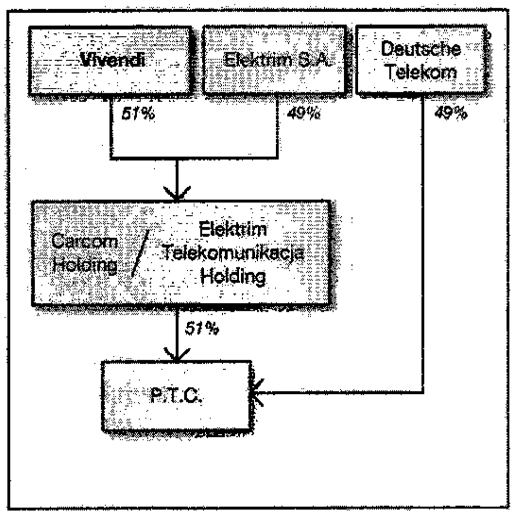
Acquisition of a supplementary stake of 2% in Telco on December 12, 2005

Until December 12, 2005, Telco was held 49% by Vivendi, 49% by Elektrim and 2% by Ymer. Telco's only asset is a 48% investment in PTC, alongside Deutsche Telekom (DT) (49%) and Carcom (3%). Until this date, Carcom was held 50% by Vivendi, 49% by Elektrim and 1% by Ymer. On December 12, 2005, after having consulted with EU competition authorities in November 2005, Vivendi acquired from Ymer the stakes it held in Telco (2%) and in Carcom (1%), for a total cash consideration of €90 million. Since that date, Vivendi has held a 51% equity and voting interest in both Telco and Carcom. As of December 31, 2005, the simplified organization chart of Telco and PTC is as follows:

Organization chart as at December 31, 2004:



Simplified organization chart as at December 31, 2005:



2.4.3 Accounting for Ymer

Until December 12, 2005, Vivendi bore all risks and enjoyed the majority of economic benefits associated with the investments held by Ymer. As such, and in accordance with SIC Interpretation 12 on the consolidation of special purpose entities, Ymer was fully consolidated by Vivendi.

Since this date and following the €90 million cash payment to Ymer for the acquisition of its interests in Telco and Carcom, Vivendi no longer bears any risk or enjoys any economic benefits associated with the investments held by Ymer. As such, Vivendi considered that from December 12, 2005, Ymer no longer satisfied the criteria laid down in SIC Interpretation 12 on the consolidation of special purpose entities. Vivendi therefore deconsolidated Ymer and recognized in its balance sheet its investment in the LBI Fund, which was previously neutralized upon Ymer's first consolidation. As of December 31, 2005, the net carrying amount of this investment was €87 million (gross carrying amount of €105 million), after the reversal of a provision in the same amount. During the fourth quarter 2006, the stake held in LBI Fund was redeemed in cash (€91 million) leading to the release of the provision (€4 million)

2.4.4 Accounting for Telco / PTC[3]

Until December 12, 2005, and notwithstanding the consolidation of Ymer due to the financial risk borne, Vivendi accounted for its interest in Telco using the equity method. In addition, due to the legal disputes surrounding ownership of the PTC shares held by Telco, the investment in PTC has not been consolidated. Since this date, Vivendi holds a 51% equity and voting interest in Telco and Carcom and exercises exclusive control over these companies, which it fully consolidates. However, due to the legal disputes surrounding ownership of the PTC shares, Telco and Carcom are unable to exercise joint control over PTC as provided in the bylaws. As such, the stake in PTC cannot be consolidated by Vivendi and the impact of the full consolidation of Telco by Vivendi is not material.

2.5. Acquisition of an additional 16% of the capital of Maroc Telecom on January 4, 2005

On November 18, 2004 following a firm purchasing commitment, the Kingdom of Morocco and Vivendi agreed to the acquisition by Vivendi of an additional 16% stake in Maroc Telecom, through Vivendi's wholly-owned subsidiary Société de Participation dans les Télécommunications. This acquisition, which was completed on January 4, 2005 for a consideration of €1,112 million, enabled Vivendi to increase its stake from 35% to 51% thereby perpetuating its 51% controlling interest. Payment was partly financed by a borrowing of MAD 6 billion (€551 million as of December 31, 2005) issued in Morocco.

Pursuant to IAS 32, the firm purchase commitment was recorded in the 2004 Consolidated Statement of Financial Position under short-term financial liabilities of €1,100 million, included in Financial Net Debt. On January 4, 2005, this financial liability was eliminated, offset by cash outflow. The difference between the acquisition cost (€1,112 million) and the carrying amount of minority interest acquired (€268 million) was recorded as goodwill (€844 million).

[3] Following the investigation opened by the Commission des Opérations de Bourse (COB) on September 12, 2003, the consolidation using the equity method of Telco, was challenged by a decision of the Autorité des Marchés Financiers (AMF) Sanctions Commission. The AMF Sanctions Commission upheld the criticism challenging the recording of Telco using the equity method rather than proportionate consolidation. On June 28, 2005, the Paris Court of Appeals partially overturned the decision of the AMF Sanctions Commission validating Vivendi's accounting treatment. On December 19, 2006, the French Supreme Court (Cour de Cassation) confirmed Vivendi's accounting treatment for Telco. Please refer to note 30 "Litigations" of this document.

2.6. Combination of Cegetel SAS and Neuf Telecom on August 22, 2005

The combination of Cegetel SAS (Cegetel) and Neuf Telecom was announced on May 11, 2005 and closed on August 22, 2005. After acquiring the 35% stake in Cegetel held by SNCF, in accordance with financial conditions set forth in pre-existing agreements, and after re-capitalizing Cegetel, SFR contributed its entire interest in the capital of Cegetel to Neuf Telecom in exchange for a 28.2% interest in the share capital of Neuf Telecom as well as bonds issued by Neuf Telecom for €380 million, of which €200 million were redeemed in cash by Neuf Telecom at the end of November 2005 and the remaining balance in 2006.

On August 22, 2005, SFR and Louis Dreyfus Group, the reference shareholders of the new company, had an equal stake of 28.2% each while the remaining stake of approximately 44% is held by the historical shareholders of Neuf Telecom. SFR's 28.2% stake in Neuf Cegetel (15.8% ownership interest for Vivendi, as it holds 56% in SFR) is equity-accounted.

Pursuant to IFRS 5, Cegetel qualified as discontinued operations as of January 1, 2005:

- From an accounting standpoint, this combination is accounted for as the divestiture of 71.8% of SFR's interest in Cegetel for €617 million (corresponding to the value of Neuf Telecom shares received (€237 million), together with the value of the bonds issued by Neuf Telecom), and as the concurrent acquisition of a 28.2% interest in Neuf Telecom.
- As a result, net income and expenses of Cegetel from January 1, 2005 to August 22, 2005, were deconsolidated and presented netted, of which 71.8% were recorded as earnings from discontinued operations and 28.2% as income from equity affiliates.
- As of December 31, 2005, this transaction resulted in a capital gain of €121 million before SFR's minority interests, (€58 million after SFR's minority interests for Vivendi), recorded in earnings from discontinued operations.

Please refer to Note 7. "Discontinued Operations for the year ended December 31, 2005"

2.7. Other changes in the scope of consolidation in 2006 and 2005

Preliminary note: the consideration indicated for the divestitures corresponds to the enterprise value of the divested stake (i.e. the cash received plus the value of principal payments on borrowings deconsolidated from fully consolidated subsidiaries, when applicable).

Other main changes in scope in 2006 (acquisition, divestiture, dilution or merger) were as follows:

- Divestiture of its residual 20% stake in Ypso to Cinven and Altice (January) for a consideration of €36 million (please refer hereunder).
- Divestiture of the Paris Saint-Germain soccer club in June 2006. The Canal+ Group sold the Paris Saint-Germain soccer club to Colony Capital, Butler Capital Partners and Morgan Stanley for a purchase price of €26 million. This divestiture generated a capital loss of -€23 million (including some impacts related to vendor warranties);
- Acquisition of Optimum Releasing, a UK film distribution company by StudioCanal in July 2006;
- Acquisition of Vale, Spain's number 1 independent music publishing company, by UMG in October 2006;
- Disposal of Roadrunner by UMG. On December 15, 2006, Universal Music Group exercised its put option to sell its stake in, and terminated its distribution agreement with, Roadrunner Records BV; and
- Acquisition of a 51% stake in Onatel, the national telecommunications provider in Burkina Faso (Onatel) by Maroc Telecom in December 2006 (please refer to Note 15.3 "Stake in Onatel").

Other main changes in scope in 2005 (acquisition, divestiture, dilution or merger) were as follows:

- January/April 2005: full consolidation of minority stakes in distribution subsidiaries at SFR.
- February 2005: acquisition of an additional stake in MultiThématiques (now wholly-owned by Canal+ Group) and divestiture of Lagardère Thématiques for a net consideration of €20 million.
- March 2005: divestiture of NC Numéricâble for a consideration of €96 million. From an accounting standpoint, this transaction led to the divestiture of 80% of the Canal+ Group's stake in NC Numéricâble and to the concurrent acquisition of 20% of Ypso Holding.
- December 2005: divestiture of a 37.8% equity interest, representing a 40% voting interest, held in UGC for a consideration of €89 million (please refer to Note 14.2 "Changes in value of equity affiliates").

Note 3. Segment data

3.1. Business segment data

The Group operates through different entertainment businesses. Each business offers different products and services that are marketed through different channels. Given the unique customer base, technology, marketing and distribution requirements of these businesses, they are managed separately and represent the primary segment reporting level. As of December 31, 2006, Vivendi had five business segments engaging in the activities described below:

- Universal Music Group, publishing and distribution of music content (original creation or catalogs);
- Vivendi Games, publishing and distribution of video games, online or on other media (such as console, PC and mobile phones);
- The Canal+ Group, production and distribution of pay-TV in France, analog or digital (terrestrially, via satellite or ADSL);
- SFR, mobile phone services in France;
- Maroc Telecom, telecommunications operator (mobile, fixed and Internet) in Morocco.

Vivendi Management evaluates the performance of the business segments and allocates necessary resources to them based on certain operating indicators (segment earnings and cash flow from operations). Segment earnings correspond to EBITA of each business.

Additionally, segment data is elaborated according to the following principles:

- The segment "Holding & Corporate" includes the cost of Vivendi S.A.'s headquarters in Paris and of its New York City office, after the allocation of a portion of these costs to each of the businesses;
- Cegetel S.A.S. (divested on August 22, 2005) qualified as discontinued operations in 2005, pursuant to IFRS 5, paragraph 34;
- The segment "Non core operations" includes miscellaneous businesses outside Vivendi's core businesses (mainly Vivendi Valorisation), which assets are being divested or liquidated and which are not disclosed as discontinued operations as they do not comply with criteria prescribed by IFRS5;
- Inter-segment commercial relations are conducted on an arm's length basis on terms and conditions similar to those which would be proposed by third parties; and
- The business segments presented hereunder are identical to those appearing in the information given to Vivendi's Management and Supervisory Boards.

Vivendi has identified five geographic areas, consisting of its four main geographic markets (France, Rest of Europe, US and Morocco), as well as the rest of the world.

3.1.1 Consolidated Statement of Earnings for 2006 and 2005

Year Ended December 31, 2006 (In millions of euros)	Universal Music Group	Vivendi Games	Canal+ Group	SFR	Maroc Telecom	Holding & Corporate	Non core operations	Eliminations	Total Vivendi
External revenues	€ 4,931	€ 804	€ 3,563	€ 8,674	€ 2,043	€ 5	€ 24	€ -	€ 20,044
Inter-segments revenues	24	-	67	4	10	-	-	(105)	-
Revenues	**€ 4,955**	**€ 804**	**€ 3,630**	**€ 8,678**	**€ 2,053**	**€ 5**	**€ 24**	**€ (105)**	**€ 20,044**
Operating expenses excluding amortization and depreciation	(4,144)	(649)	(3,391)	(5,229)	(859)	(114)	(25)	105	(14,306)
Sub-total (EBITDA)	**€ 811**	**€ 155**	**€ 239**	**€ 3,449**	**€ 1,194**	**€ (109)**	**€ (1)**	**€ -**	**€ 5,738**
Restructuring charges	(15)	(2)	-	-	(30)	(4)	1	-	(50)
Gains (losses) on tangible and intangible assets	-	(1)	7	(43)	1	5	(1)	-	(32)
Other non recurring items	-	-	1	-	(3)	3	70	-	71
Depreciation of tangible assets	(52)	(28)	(103)	(503)	(199)	(7)	(13)	-	(905)
Amortization of intangible assets excluding those acquired through business combinations	-	(9)	(69)	(320)	(51)	(1)	(2)	-	(452)
Adjusted earnings before interest and income taxes (EBITA)	**€ 744**	**€ 115**	**€ 75**	**€ 2,583**	**€ 912**	**€ (113)**	**€ 54**	**€ -**	**€ 4,370**
Amortization of intangible assets acquired through business combinations	(199)	-	-	-	(24)	-	-	-	(223)
Impairment losses of intangible assets acquired through business combinations	-	-	-	-	-	-	-	-	-
Earnings before interest and income taxes (EBIT)	**€ 545**	**€ 115**	**€ 75**	**€ 2,583**	**€ 888**	**€ (113)**	**€ 54**	**€ -**	**€ 4,147**
Income from equity affiliates									337
Interest									(203)
Income from investments									54
Other financial charges and income									311
Provision for income taxes									547
Earnings from discontinued operations									-
Earnings									**€ 5,193**
Attributable to :									
Equity holders of the parent									**4,033**
Minority interests									1,160

Income from equity affiliates mainly comprised the Group's share in earnings of NBC Universal (€301 million), an investment allocated to the Holding & Corporate business segment and the Group's share in earnings of Neuf Cegetel (€38 million), an investment allocated to the SFR business segment. Please refer to Note 14 "Equity affiliates".

Year Ended December 31, 2005 (In millions of euros)	Universal Music Group	Vivendi Games	Canal+ Group	SFR	Maroc Telecom	Holding & Corporate	Non core operations	Eliminations	Total Vivendi
External revenues	€ 4,877	€ 641	€ 3,379	€ 8,683	€ 1,848	€ -	€ 56	€ -	€ 19,484
Inter-segments revenues	16	-	73	4	12	-	5	(110)	-
Revenues	**€ 4,893**	**€ 641**	**€ 3,452**	**€ 8,687**	**€ 1,860**	**€ -**	**€ 61**	**€ (110)**	**€ 19,484**
Operating expenses excluding amortization and depreciation	(4,133)	(555)	(3,083)	(5,478)	(804)	(149)	(61)	110	(14,153)
Sub-total (EBITDA)	**€ 760**	**€ 86**	**€ 369**	**€ 3,209**	**€ 1,056**	**€ (149)**	**€ -**	**€ -**	**€ 5,331**
Restructuring charges	(26)	(1)	1	-	(28)	2	1	-	(51)
Gain (losses) on tangible and intangible assets	8	-	(4)	(20)	-	11	-	-	(5)
Other non recurring items	-	(1)	2	-	-	(52)	47	-	(4)
Depreciation of tangible assets	(61)	(18)	(98)	(478)	(195)	(7)	(15)	-	(870)
Amortization of intangible assets excluding those acquired through business combinations	-	(11)	(69)	(289)	(47)	-	-	-	(416)
Adjusted earnings before interest and income taxes (EBITA)	**€ 681**	**€ 55**	**€ 203**	**€ 2,422**	**€ 786**	**€ (195)**	**€ 33**	**€ -**	**€ 3,985**
Amortization of intangible assets acquired through business combinations	(201)	(14)	-	-	(24)	-	-	-	(239)
Earnings from operations	**€ 480**	**€ 41**	**€ 203**	**€ 2,422**	**€ 762**	**€ (195)**	**€ 33**	**€ -**	**€ 3,746**
Impairment losses of intangible assets acquired through business combinations	(50)	-	4	-	-	(124)	-	-	(170)
Earnings before interest and income taxes (EBIT)	**€ 430**	**€ 41**	**€ 207**	**€ 2,422**	**€ 762**	**€ (319)**	**€ 33**	**€ -**	**€ 3,576**
Income from equity affiliates									326
Interest									(218)
Income from investments									75
Other financial charges and income									619
Provision for income taxes									(204)
Earnings from discontinued operations									92
Earnings									**€ 4,266**
Attributable to :									
Equity holders of the parent									**3,154**
Minority interests									1,112

Income from equity affiliates mainly comprised the Group's share in earnings of NBC Universal (€361 million), an investment allocated to the Holding & Corporate business segment and the Group's share in earnings of Neuf Cegetel /Cegetel SAS (-€50 million) , an investment allocated to the SFR business segment. Please refer to Note 14 "Equity affiliates".

Earnings from discontinued operations comprised the Group's share in earnings of Cegetel S.A.S. (71.8%, i.e., -€29 million) and the capital gain generated by the divestiture of this SFR subsidiary (€121 million) recorded under SFR. Please refer to Note 7 "Discontinued operations and assets held for sale".

3.1.2 Consolidated statement of financial position as of December 31, 2006 and 2005

(In millions of euros)	Universal Music Group	Vivendi Games	Canal+ Group	SFR	Maroc Telecom	Holding & Corporate	Non core operations	**Total Vivendi**
DECEMBER 31, 2006								
Segment assets (a)	€ 8,953	€ 428	€ 5,398	€ 12,415	€ 4,045	€ 7,134	€ 174	€ 38,547
incl. investments in equity affiliates (b)	*21*	-	*2*	*1,055*	*1*	*5,953*	-	*7,032*
Unallocated assets (c)	-	-	-	-	-	-	-	4,501
Total assets								**43,048**
Segment liabilities (d)	2,890	331	2,457	5,130	959	389	196	12,352
Unallocated liabilities (e)	-	-	-	-	-	-	-	8,832
Total liabilities								**21,184**
Increase in tangible and intangible assets	€ 46	€ 86	€ 150	€ 1,380	€ 361	€ 2	€ -	**€ 2,025**
DECEMBER 31, 2005								
Segment assets (a)	€ 8,085	€ 361	€ 5,735	€ 11,498	€ 3,861	€ 8,572	€ 863	€ 38,975
incl. investments in equity affiliates (b)	*34*	-	*5*	*397*	*1*	*6,419*	-	*6,856*
Unallocated assets (c)	-	-	-	-	-	-	-	5,508
Total assets								**44,483**
Segment liabilities (d)	3,008	238	2,210	4,401	870	853	297	11,877
Unallocated liabilities (e)	-	-	-	-	-	-	-	10,998
Total liabilities								**€ 22,875**
Increase in tangible and intangible assets	€ 52	€ 36	€ 126	€ 1,106	€ 291	€ 3	€ -	**€ 1,614**

In addition, segment data is presented in Note 9 "Goodwill" and Note 10 "Content assets and commitments".

(a) Includes goodwill, content assets, other intangible assets, property, plant and equipment, investments in equity affiliates, financial assets, inventories and trade accounts receivable and other.

(b) Holding & Corporate includes the 20% stake in NBC Universal.

(c) Includes deferred tax assets, current tax receivables, cash and cash equivalents and assets held for sale.

(d) Includes provisions, other non-current liabilities and trade accounts payable and other.

(e) Includes borrowings and other financial liabilities, deferred tax liabilities, current tax payables and liabilities associated with assets held for sale.

3.2. Geographic data

Information by geographic area is the second level of segment data. Revenues are presented based on the customers' location.

(In millions of euros)	December 31, 2006		December 31, 2005	
Revenues				
France	€ 12,372	*62%*	€ 12,216	*63%*
Rest of Europe	2,081	*10%*	1,933	*10%*
USA	2,448	*12%*	2,414	*12%*
Morocco	1,960	*10%*	1,773	*9%*
Rest of World	1,183	*6%*	1,148	*6%*
	€ 20,044	*100%*	**€ 19,484**	*100%*

(In millions of euros)	December 31, 2006			December 31, 2005		
Segment assets (a)						
France	€	19,147	*50%*	€	19,053	*49%*
Rest of Europe		1,201	*3%*		1,680	*4%*
USA		13,836	*36%*		14,049	*36%*
Morocco		3,930	*10%*		3,746	*10%*
Rest of World		433	*1%*		447	*1%*
	€	**38,547**	*100%*	€	**38,975**	*100%*

(a) Please refer to the definition provided in (a) to the Note 3.1.2. "Consolidated statement of financial position".

In 2006 and 2005, capital expenditures were mainly realized by SFR and Maroc Telecom for which geographic areas are France and Morocco respectively.

Note 4. EBIT for the years ended December 31, 2006 and 2005

4.1. Breakdown of revenues and cost of revenues for the years ended December 31, 2006 and 2005

	Year Ended December 31,			
(In millions of euros)	2006		2005	
Product sales, net	€	5,788	€	5,739
Service revenues		14,222		13,700
Other		34		45
Revenues	€	**20,044**	€	**19,484**
Cost of products sold, net	€	(3,628)	€	(3,699)
Cost of service revenues		(6,521)		(6,196)
Other		3		(3)
Cost of revenues	€	**(10,146)**	€	**(9,898)**

4.2. Personnel costs and average employee numbers for the years ended December 31, 2006 and 2005

		Year Ended December 31,			
(In millions of euros except number of employees)	Note	2006		2005	
Annual average number of full time equivalent employees		€	37,014	€	36,859
Salaries			(1,573)		(1,560)
Social security and other employment charges			(367)		(358)
Capitalized personnel costs			9		15
Wages and expenses		€	**(1,931)**	€	**(1,903)**
Share-based compensation	21		(113)		(74)
Employee benefit plans	20		(78)		(69)
Other			(105)		(128)
Personnel costs		€	**(2,227)**	€	**(2,174)**

4.3. Additional information on operating expenses for the years ended December 31, 2006 and 2005

4.3.1 Research and development costs for the years ended December 31, 2006 and 2005

Research and development costs recorded in expenses amounted to -€217 million in 2006 and -€154 million in 2005.

4.3.2 Advertising costs for the years ended December 31, 2006 and 2005

Advertising costs amounted to -€661 million in 2006 and- €637 million in 2005.